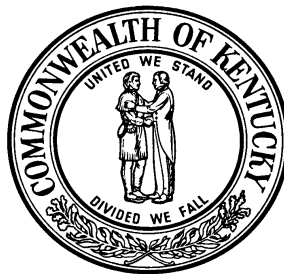


# **REPORT OF THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY**

## **VOLUME I**

**For the Year Ended  
June 30, 2016**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**THE STATEWIDE SINGLE AUDIT OF THE COMMONWEALTH OF KENTUCKY**  
**VOLUME I**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Background**

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires an annual audit of the financial statements and compliance with requirements applicable to major federal programs. The Auditor of Public Accounts (APA) meets these requirements and submits audit findings required to be reported by auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), through our opinion on the Commonwealth's Comprehensive Annual Financial Report (CAFR) and through the Statewide Single Audit of Kentucky (SSWAK). Our SSWAK report is contained in two volumes as noted below.

**SSWAK - Volume I** contains financial reporting information based on our audit of the CAFR. It includes the APA's opinion on the Schedule of Expenditures of Federal Awards (SEFA) in relation to the financial statements, the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and financial statement findings related to internal control and compliance.

**SSWAK - Volume II** will present elements required under the Uniform Guidance, including the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance*, and the Schedule of Findings and Questioned Costs.

**Comprehensive Annual Financial Report**

The CAFR, including our report thereon based on our audit and the reports of other auditors, has been issued under separate cover. We identified in our Independent Auditor's Report on the CAFR the percentages of various funds and component units audited by other auditors. The agencies and funds audited by other auditors, as well as contact information, are presented in the Appendix of this report.

The scope of the CAFR audit included:

- An audit of the basic financial statements and combining financial statements;
- Limited procedures applied to required supplementary information;
- An audit of the SEFA sufficient to give an opinion in relation to the basic financial statements;
- and,
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants, and tests of internal controls where applicable.

**THE STATEWIDE SINGLE AUDIT OF THE  
COMMONWEALTH OF KENTUCKY VOLUME I  
FOR THE YEAR ENDED JUNE 30, 2016  
(Continued)**

**Schedule of Expenditures of Federal Awards**

The SEFA presented within this report is organized by federal grantor. The Catalog of Federal Domestic Assistance (CFDA) numbers and program names are listed under the federal grantor administering the program. The state agencies expending the federal funds are listed beside each CFDA number. The notes to the SEFA provide more detailed information on certain aspects of the expenditures. Clusters of programs are indicated in the schedule by light gray shading. The identification of major federal programs and our report thereon will be presented in Volume II of the SSWAK.

For the Fiscal Year (FY) ended June 30, 2016, the total federal dollars expended by the Commonwealth of Kentucky was \$11,294,238,857 in cash awards and \$1,088,504,764 in noncash awards. For FY 2016, the total federal cash expenditures as reported on the SEFA increased by \$244,206,857 in comparison with the total for FY 2015.

**Component Units**

The Commonwealth of Kentucky reporting entity for the purposes of the CAFR includes various component units, including state universities and retirement systems, as identified in accordance with GASB No. 14, 39, and 61. However, except for CAFR reporting, the Commonwealth has elected to exclude component units from the statewide single audit. Thus, these component units, including state universities and retirement systems, are not included in the accompanying SEFA and reports on internal control and compliance over financial reporting. These entities are still required to have audits performed in accordance with the provisions of the Uniform Guidance, if applicable, based on their total federal expenditures. Separately issued reports of component units can be obtained by contacting the respective agency. Contact information for these agencies is presented in the Appendix of this report.



MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

February 14, 2017

Honorable Matthew G. Bevin, Governor  
Cabinet Secretaries and Agency Heads  
Members of the Commonwealth of Kentucky Legislature

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Statewide Single Audit of Kentucky - Volume I for the Fiscal Year ended June 30, 2016. Volume I contains financial statement findings identified during our audit of the Comprehensive Annual Financial Report (CAFR), the Schedule of Expenditures of Federal Awards (SEFA), related notes, and our opinion thereon, as well as the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

We will subsequently report to you the required elements of Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards* in Volume II of this report upon completion of our audit of the Commonwealth's major federal programs.

On behalf of the staff of the Auditor of Public Accounts, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Libby Carlin, Executive Director of the Office of Financial Audits and Office of Technology and Special Audits.

Respectfully Submitted,

Mike Harmon  
Auditor of Public Accounts





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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

Honorable Matthew G. Bevin, Governor  
Cabinet Secretaries and Agency Heads  
Members of the Commonwealth of Kentucky Legislature

*Independent Auditor's Report*

***Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance***

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commonwealth of Kentucky's basic financial statements. We issued our report thereon dated December 14, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

***Opinion***

In our opinion, except for the effects of the application of a different basis of accounting, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the Commonwealth's basic financial statements as a whole.



Honorable Matthew G. Bevin, Governor  
Cabinet Secretaries and Agency Heads  
Members of the Commonwealth of Kentucky Legislature

***Emphasis of Matter***

The Schedule of Expenditures of Federal Awards is prepared on the basis of cash disbursements as modified by the application of Kentucky Revised Statute 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed and not when incurred.

***Other Information***

This report is intended solely for the information and use of management, members of the legislature, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike H", followed by a horizontal line.

Mike Harmon  
Auditor of Public Accounts

December 14, 2016

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Agriculture					
Direct Programs:					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	AGR	\$ 588,382	\$	\$
		F&W			
10.028	Wildlife Services	F&W	1,778		
10.072	Wetlands Reserve Program	F&W	312,977		
10.093	Voluntary Public Access and Habitat Incentive Program (Note 14)	F&W			
10.102	Emergency Forest Restoration Program	EEC	2,123		
10.103	2009 Aquaculture Grant Program (Note 14)	ADB			
10.153	Market News	AGR	4,967		
10.156	Federal-State Marketing Improvement Program	AGR	1,326		
10.162	Inspection Grading and Standardization	AGR	8,710		
10.163	Market Protection and Promotion	AGR	37,906		
10.170	Specialty Crop Block Grant Program - Farm Bill	AGR	176,444		
10.479	Food Safety Cooperative Agreements	CHFS	7,744		
10.547	Professional Standards for School Nutrition Employees	EDU	3,897		
SNAP Cluster:					
10.551	Supplemental Nutrition Assistance Program (Note 2) (Note 10)	CHFS		998,012,468	
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Note 2)	CHFS	66,019,517		12,670,538
Total SNAP Cluster:			66,019,517	998,012,468	12,670,538
Child Nutrition Cluster:					
10.553	School Breakfast Program (Note 2)	EDU	85,133,579		85,133,579
		JUV			
10.555	National School Lunch Program (Note 2) (Note 10)	EDU	215,167,730		215,167,730
		AGR		25,677,369	
		JUV			
10.556	Special Milk Program for Children (Note 2)	EDU	24,946		24,946
10.559	Summer Food Service Program for Children (Note 2)	EDU	6,887,857		6,714,233
Total Child Nutrition Cluster:			307,214,112	25,677,369	307,040,488
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	CHFS	114,578,062		22,864,886
10.558	Child and Adult Care Food Program (Note 2)	EDU	38,287,713		38,277,109
10.560	State Administrative Expenses for Child Nutrition	EDU	3,478,387		724,766
		AGR	439,802		
Food Distribution Cluster:					
10.565	Commodity Supplemental Food Program (Note 10)(Note 11)	AGR	1,803,106	5,950,660	
10.568	Emergency Food Assistance Program (Administrative Costs)	AGR	1,289,673		
10.569	Emergency Food Assistance Program (Food Commodities) (Note 10)	AGR		8,255,188	
Total Food Distribution Cluster:			3,092,779	14,205,848	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	CHFS	136,876		
10.575	Farm to School Grant Program	AGR	57,013		
10.576	Senior Farmers Market Nutrition Program	AGR	271,923		
10.579	Child Nutrition Discretionary Grants Limited Availability	EDU	653,526		653,526
10.582	Fresh Fruit and Vegetable Program	EDU	2,691,094		2,691,094
10.589	Child Nutrition Direct Certification Performance Awards (Note 14)	EDU			
10.592	Healthy, Hunger-Free Kids Act of 2010 Childhood Hunger Research and Demonstration Projects	CHFS	65,494		
10.596	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP	CHFS	427,110		338,809
		DWI	24,278		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<b><u>U.S. Department of Agriculture (Continued)</u></b>					
<b>Direct Programs (Continued):</b>					
10.598	Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants	CHFS	461,836		63,064
		KSP	4,529		
10.652	Forestry Research	EEC	406,699		
10.664	Cooperative Forestry Assistance	EEC	2,204,493		621,909
10.674	Wood Utilization Assistance	EEC	13,349		12,024
10.676	Forest Legacy Program	EEC	24,782		
10.678	Forest Stewardship Program	EEC	2,909		
10.771	Rural Cooperative Development Grants (Note 14)	AGR			
10.902	Soil and Water Conservation	COT	246,350		
		F&W	96,096		
		EEC			
10.912	Environmental Quality Incentives Program	EEC	11,836		
10.913	Farm and Ranch Lands Protection Program	AGR	7,000		
		F&W			
10.923	Emergency Watershed Protection Program (Note 14)	TC			
10.932	Regional Conservation Partnership Program	EEC	8,439		8,439
10.U01	Rural Rehabilitation Student Loan Program (Note 1) (Note 3) (Note 14)	AGR			
10.U02	HWA Participating Agreement with Daniel Boone National Forest (Note 1)(Note 15)	EEC	62,025		
<b>Total U.S. Department of Agriculture</b>			<b>\$ 542,134,283</b>	<b>\$ 1,037,895,685</b>	<b>\$ 385,966,652</b>
<b><u>U.S. Department of Commerce</u></b>					
<b>Direct Programs:</b>					
<b>Economic Development Cluster:</b>					
11.307	Economic Adjustment Assistance	KCNA	\$ 105,700	\$	\$
		DLG	1,328		
		MIL			
<b>Total Economic Development Cluster:</b>			<b>107,028</b>		
11.469	Congressionally Identified Awards and Projects (Note 14)	PARKS			
11.549	State and Local Implementation Grant Program	COT	282,065		
		KSP	24,622		
<b>Total U.S. Department of Commerce</b>			<b>\$ 413,715</b>	<b>\$</b>	<b>\$</b>
<b><u>U.S. Department of Defense</u></b>					
<b>Direct Programs:</b>					
12.106	Flood Control Projects	F&W	\$ 15,068	\$	\$
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	EEC	81,666		
12.217	Electronic Absentee Systems for Elections	SOS	117,488		
12.400	Military Construction, National Guard	MIL	3,383,016		
12.401	National Guard Military Operations and Maintenance (O&M) Projects	MIL	25,705,598		
12.404	National Guard ChalleNGe Program	MIL	4,881,171		
12.607	Community Economic Adjustment Assistance for Realignment or Closure of a Military Installation (Note 14)	CMA			
12.617	Economic Adjustment Assistance for State Governments	CMA	303,478		
12.700	Donations/Loans of Obsolete DOD Property (Note 10)	EEC		226,614	
		KSP		5,040	
12.U01	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities (Note 1)(Note 15)	EEC	954,085		60,330
12.U02	Teacher and Teacher's Aide Placement Assistance Program (Note 1)(Note 15)	EPSB	91,034		
<b>Total U.S. Department of Defense</b>			<b>\$ 35,532,604</b>	<b>\$ 231,654</b>	<b>\$ 60,330</b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards



**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<b><u>U.S. Department of Housing and Urban Development</u></b>					
<b>Direct Programs:</b>					
<b>Community Development Block Grants-State-Administered Small Cities Program</b>					
14.228	Community Development Block Grants/State's Program and Non- Entitlement Grants in Hawaii (Note 8)	DLG MIL	\$ 18,714,346	\$	\$ 17,945,834
14.251	Economic Development Initiative -Special Project, Neighborhood Initiative and Miscellaneous Grants (Note 14)	PARKS			
14.262	ARRA-Homeless Prevention and Rapid Re-Housing Program Technical Assistance (Note 13)	DLG	1,515,328		1,427,620
14.401	Fair Housing Assistance Program_State and Local	HRC	248,462		
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 20,478,136</b>	<b>\$</b>	<b>\$ 19,373,454</b>
<b><u>U.S. Department of the Interior</u></b>					
<b>Direct Programs:</b>					
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	EEC	\$ 10,737,042	\$	\$ 154,968
15.252	Abandoned Mine Land Reclamation (AMLR)	EEC	27,725,141		6,710,816
<b>Fish and Wildlife Cluster:</b>					
15.605	Sport Fish Restoration (Note 7)	F&W	5,045,055		
15.611	Wildlife Restoration and Basic Hunter Education (Note 9)	F&W	7,103,878		
<b>Total Fish and Wildlife Cluster:</b>			<b>12,148,933</b>		
15.608	Fish and Wildlife Management Assistance	F&W	1,359		
15.614	Coastal Wetlands Planning, Protection and Restoration (Note 14)	F&W			
15.615	Cooperative Endangered Species Conservation Fund (Note 7)	F&W	71,835		
		EEC	34,348		
15.616	Clean Vessel Act (Note 14)	F&W			
15.622	Sportfishing and Boating Safety Act (Note 14)	F&W			
15.623	North American Wetlands Conservation Fund	F&W	16,903		
15.632	Conservation Grants Private Stewardship for Imperiled Species	F&W	252,461		
		EEC			
15.633	Landowner Incentive (Note 14)	F&W			
15.634	State Wildlife Grants (Note 7)	F&W	755,591		
15.656	ARRA-Recovery Act Funds - Habitat Enhancement, Restoration and Improvement (Note 13) (Note 14)	F&W			
15.657	Endangered Species Conservation - Recovery Implementation Funds	F&W	41,143		
		EEC			
15.808	U.S. Geological Survey_Research and Data Collection	EEC	18,224		
15.809	National Spatial Data Infrastructure Cooperative Agreements (Note 14)	COT			
15.904	Historic Preservation Fund Grants-In-Aid	KHC	968,677		86,270
15.916	Outdoor Recreation_Acquisition, Development and Planning (Note 6)	DLG	322,141		322,141
15.945	Cooperative Research and Training Programs - Resources of the National Park System (Note 14)	EEC			
15.U01	Clark River NWR Fish Survey (Note 1)(Note 15)	F&W	11,422		
15.U02	Ohio River Survey (Note 1)(Note 14)	F&W			
<b>Total U.S. Department of the Interior</b>			<b>\$ 53,105,220</b>	<b>\$</b>	<b>\$ 7,274,195</b>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice					
Direct Programs:					
16.013	Violence Against Women Act Court Training and Improvement Grants	AOC	\$ 7,523	\$	
16.017	Sexual Assault Services Formula Program	JUST	283,887		283,887
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	CORR	154,839		
16.203	Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program (Note 14)	CORR			
16.523	Juvenile Accountability Block Grants	JUV	108,690		95,887
		UPS			
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	JUV	445,912		358,462
16.543	Missing Children's Assistance	KSP	380,440		
16.548	Title V_Delinquency Prevention Program (Note 14)	JUV			
16.550	State Justice Statistics Program for Statistical Analysis Centers	JUST	119,587		
16.554	National Criminal History Improvement Program (NCHIP)	KSP	525,138		
		JUST			
		KOHS			
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants (Note 14)	KSP			
		JUST			
16.575	Crime Victim Assistance	JUST	5,744,481		5,290,899
		KSP	55,699		
		PPC			
16.576	Crime Victim Compensation	UPS	363,638		
		PPC	302,119		
		CORR			
		KSP			
		JUV			
		PUBAD			
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	CORR	183,110		
		JUST			
16.582	Crime Victim Assistance/Discretionary Grants (Note 14)	JUST	10,366		8,960
		OAG			
16.585	Drug Court Discretionary Grant Program (Note 7)	AOC	1,067,438		
16.588	Violence Against Women Formula Grants	JUST	1,623,327		1,506,937
		OAG	91,399		
		AOC	77,703		
		UPS	66,942		
		KSP			
		DCJT			
		CHFS			
16.588	ARRA-Violence Against Women Formula Grants (Note 13) (Note 14)	KSP			
		JUST			
16.593	Residential Substance Abuse Treatment for State Prisoners	CORR	142,957		
		JUV			
		JUST			
16.606	State Criminal Alien Assistance Program	CORR	74,875		
16.607	Bulletproof Vest Partnership Program (Note 14)	CORR			
		JUST			
		KSP			
16.609	Project Safe Neighborhoods (Note 14)	KSP			
		UPS			
16.610	Regional Information Sharing Systems (Note 14)	COT			
16.710	Public Safety Partnership and Community Policing Grants (Note 14)	KSP			
16.727	Enforcing Underage Drinking Laws Program (Note 14)	KSP			
16.728	Drug Prevention Program (Note 14)	TC			
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	JUST	76,949		76,560
		JUV	61,434		
		CORR	32,308		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	JUST	1,613,088		1,454,467
		KSP	476,924		
		CORR			
		PUBAD	48,577		
		DCJT			

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Justice (Continued)					
Direct Programs (Continued):					
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	CORR	13,247		
16.741	DNA Backlog Reduction Program	KSP	679,628		
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	KSP	67,760		
		JUST	42,649		
16.743	Forensic Casework DNA Backlog Reduction Program (Note 14)	JUST			
		PUBAD			
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program (Note 7)	AOC	105,141		
16.746	Capital Case Litigation Initiative	JUST	28,251		
		PUBAD	13,104		
		OAG	1,542		
16.750	Support for Adam Walsh Act Implementation Grant Program	KSP	84,000		
16.751	Edward Byrne Memorial Competitive Grant Program (Note 14)	CORR			
16.754	Harold Rogers Prescription Drug Monitoring Program	CHFS	135,332		
16.800	ARRA-Recovery Act - Internet Crimes Against Children Task Force Program (ICAC) (Note 13) (Note 14)	KSP			
16.801	ARRA-Recovery Act - State Victim Assistance Formula Grant Program (Note 13) (Note 14)	JUST			
16.803	ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories (Note 13) (Note 14)	JUST			
		F&W			
		PUBAD			
16.804	ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government (Note 13)(Note 14)	DCJT			
16.808	ARRA-Recovery Act - Edward Byrne Memorial Competitive Grant Program (Note 13) (Note 14)	KSP			
16.812	Second Chance Act Reentry Initiative	CORR	42,337		
16.813	NICS Act Record Improvement Program (Note 14)	KSP			
16.817	Byrne Criminal Justice Innovation Program	PUBAD	17,484		
16.826	Vision 21 (Note 14)	PPC			
16.922	Equitable Sharing Program	UPS	10,880		
16.U01	Drug Enforcement Administration (Note 1)(Note15)	KSP	2,046,878		
16.U02	Federal Bureau of Investigation (Note 1)(Note 15)	KSP	37,816		
16.U03	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program (Note 1)(Note 15)	KSP	32,493		
16.U04	District Fugitive Task Force (Note 1)(Note 15)	KSP	15,954		
16.U05	Equitable Sharing-Asset Forfeiture (Note 1)(Note 15)	KSP	1,570,498		
Total U.S. Department of Justice			\$ 19,084,344	\$	\$ 9,076,059
U.S. Department of Labor					
Direct Programs:					
17.002	Labor Force Statistics	DWI	\$ 818,554	\$	\$
17.005	Compensation and Working Conditions	LABOR	174,203		
Employment Service Cluster:					
17.207	Employment Service/Wagner-Peyser Funded Activities	DWI	9,666,022		
17.801	Disabled Veterans' Outreach Program (DVOP)	DWI	1,396,916		
17.804	Local Veterans' Employment Representative Program	DWI	594,973		
Total Employment Service Cluster:			11,657,911		
17.225	Unemployment Insurance (Note 2)(Note 4)	DWI	382,720,154		
17.225	ARRA-Unemployment Insurance (Note 4)(Note 13)	DWI	419		
17.235	Senior Community Service Employment Program	CHFS	1,571,815		1,489,689
17.245	Trade Adjustment Assistance	DWI	5,829,252		4,054,119
WIA/WIOA Cluster:					
17.258	WIA/WIOA Adult Program (Note 2)	DWI	13,924,243		12,987,321
17.259	WIA/WIOA Youth Activities (Note 2)	DWI	10,984,487		10,176,403
		EDU			
17.278	WIA/WIOA Dislocated Worker Formula Grants (Note 2)	DWI	12,949,514		11,371,460
Total WIA/WIOA Cluster:			37,858,244		34,535,184

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Labor (Continued)					
Direct Programs (Continued):					
17.260	WIA Dislocated Workers (Note 14)	DWI			
17.261	WIA/WIOA Pilots, Demonstrations, and Research Projects	DWI	247,421		
17.267	Incentive Grants-WIA Section 503	DWI	345,077		
17.268	H-1B Job Training Grants (Note 14)	DWI			
17.271	Worker Opportunity Tax Credit Program (WOTC)	DWI	249,013		
17.273	Temporary Labor Certification For Foreign Workers	DWI	323,256		
17.277	WIOA National Dislocated Workers Grants / WIA National Emergency Grants	DWI	1,605,177		1,138,077
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	DWI	8,301		
17.285	Apprenticeship USA Grants (Note 14)	LABOR			
17.503	Occupational Safety and Health_State Program	LABOR	3,444,677		
17.600	Mine Health and Safety Grants	EEC	543,315		
Total U.S. Department of Labor			\$ 447,396,789	\$	\$ 41,217,069
U.S. Department of Transportation					
Direct Programs:					
20.106	Airport Improvement Program	TC	\$ 501,210	\$	\$
Highway Planning and Construction Cluster:					
20.205	Highway Planning and Construction (Note 2)(Note 5)	TC	750,883,170		27,982,607
		PARKS	214,531		
		DWI	74,949		
		KSP	20,642		
		KHS			
20.205	ARRA-Highway Planning and Construction (Note 2) (Note 5) (Note 13)	TC	76,695		
		KHP			
20.219	Recreational Trails Program (Note 2) (Note 6)	DLG	819,273		784,596
		PARKS	858		
Total Highway Planning and Construction Cluster:			752,090,118		28,767,203
20.218	Motor Carrier Safety Assistance	KSP	4,172,006		163,392
		TC	113,985		
20.231	Performance and Registration Information Systems Management	TC	569,292		
20.232	Commercial Driver's License Programs Improvement Grant	TC	913,192		
20.237	Motor Carrier Safety Assistance High Priority Activities Grants and Cooperative Agreements	TC	1,074,537		
20.238	Commercial Drivers License Information System (CDLIS) Modernization Grant (Note 14)	TC			
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	KSP	1,253		
Federal Transit Cluster:					
20.500	Federal Transit_Capital Investment Grants	TC	2,034,618		2,034,618
20.507	Federal Transit_Formula Grants	TC	1,122,034		1,122,034
20.526	Bus and Bus Facilities Formula Program	TC	1,285,388		1,285,388
Total Federal Transit Cluster:			4,442,040		4,442,040
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	TC	694,235		694,235
20.509	Formula Grants for Rural Areas	TC	16,403,889		15,578,927
Transit Services Programs Cluster:					
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	TC	2,475,943		2,475,943
20.516	Job Access and Reverse Commute Program	TC	22,481		22,481
Total Transit Services Programs Cluster:			2,498,424		2,498,424
20.514	Public Transportation Research, Technical Assistance, and Training	TC	3,887		3,887

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of Transportation (Continued)</u>					
Direct Programs (Continued):					
<b>Highway Safety Cluster:</b>					
20.600	State and Community Highway Safety	TC	2,230,633		1,350,174
		KSP	1,164,246		
		OAG	209,262		
		DCJT	37,419		
		AOC			
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	KSP	294,495		
		TC	147,367		
		DCJT	41,869		
20.602	Occupant Protection Incentive Grants	KSP	166,062		
		TC			
20.610	State Traffic Safety Information System Improvement Grants	TC	205,171		198,790
		KSP			
20.612	Incentive Grant Program to Increase Motorcyclist Safety	TC			
20.616	National Priority Safety Programs	TC	2,368,055		1,118,588
		KSP	423,295		
<b>Total Highway Safety Cluster:</b>			<b>7,287,874</b>		<b>2,667,552</b>
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	KSP	127,150		
		TC	111,664		111,664
20.700	Pipeline Safety Program State Base Grant	EEC	469,442		
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	MIL	299,967		90,128
20.933	National Infrastructure Investments (Note 14)	TC			
<b>Total U.S. Department of Transportation</b>			<b>\$ 791,774,165</b>	<b>\$</b>	<b>\$ 55,017,452</b>
<u>U.S. Department of Treasury</u>					
Direct Programs:					
21.U01	Internal Revenue Service (Note 1)(Note 14)	KSP	\$	\$	\$
21.U02	Equitable Sharing-Asset Forfeiture (Note 1) (Note 14)	KSP			
		UPS			
21.U03	State Small Business Credit Initiative (Note 1)(Note 15)	CED	4,973,308		
<b>Total U.S. Department of Treasury</b>			<b>\$ 4,973,308</b>	<b>\$</b>	<b>\$</b>
<u>U.S. Appalachian Regional Commission</u>					
Direct Programs:					
23.002	Appalachian Area Development	DLG	\$ 714,643	\$	\$ 714,643
		TAH			
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects	DLG	1,035,937		945,862
<b>Total U.S. Appalachian Regional Commission</b>			<b>\$ 1,750,580</b>	<b>\$</b>	<b>\$ 1,660,505</b>
<u>U.S. Equal Employment Opportunity Commission</u>					
Direct Programs:					
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	HRC	\$ 157,296	\$	\$
<b>Total U.S. Equal Employment Opportunity Commission</b>			<b>\$ 157,296</b>	<b>\$</b>	<b>\$</b>
<u>U.S. General Services Administration</u>					
Direct Programs:					
39.003	Donation of Federal Surplus Personal Property (Note 10)	FAC	\$	\$ 251,821	\$
		EEC			
39.011	Election Reform Payments (Note 7) (Note 12)	KBE	460,733		
<b>Total U.S. General Services Administration</b>			<b>\$ 460,733</b>	<b>\$ 251,821</b>	<b>\$</b>
<u>National Aeronautics and Space Administration</u>					
Direct Programs:					
43.002	Aeronautics (Note 14)	COT	\$	\$	\$
<b>Total National Aeronautics and Space Administration</b>			<b>\$</b>	<b>\$</b>	<b>\$</b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<b><u>U.S. National Foundation on the Arts and the Humanities</u></b>					
<b>Direct Programs:</b>					
45.024	Promotion of the Arts_Grants to Organizations and Individuals	KAC	\$ 2,672	\$	\$
45.025	Promotion of the Arts_Partnership Agreements	KAC	689,264		529,518
		KHS			
45.161	Promotion of the Humanities_Research	KHS	69,675		
45.301	Museums for America	KHS	53,981		
45.310	Grants to States	DLA	1,577,795		20,000
45.313	Laura Bush 21st Century Librarian Program	DLA	28,653		
<b>Total U.S. National Foundation on the Arts and Humanities</b>			<b>\$ 2,422,040</b>	<b>\$</b>	<b>\$ 549,518</b>
<b><u>U.S. Small Business Administration</u></b>					
<b>Direct Programs:</b>					
59.061	State Trade Expansion	CED	\$ 217,018	\$	\$
<b>Total U.S. Small Business Administration</b>			<b>\$ 217,018</b>	<b>\$</b>	<b>\$</b>
<b><u>U.S. Department of Veterans Affairs</u></b>					
<b>Direct Programs:</b>					
64.005	Grants to States for Construction of State Home Facilities	VA	\$ 5,726,978	\$	\$
64.015	Veterans State Nursing Home Care	VA	25,690,802		
64.101	Burial Expenses Allowance for Veterans	VA	726,774		
<b>Total U.S. Department of Veterans Affairs</b>			<b>\$ 32,144,554</b>	<b>\$</b>	<b>\$</b>
<b><u>U.S. Environmental Protection Agency</u></b>					
<b>Direct Programs:</b>					
66.032	State Indoor Radon Grants	CHFS	\$ 238,063	\$	\$ 168,095
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act (Note 10)	EEC	562,436	94,722	
66.419	Water Pollution Control State, Interstate, and Tribal Program Support	EEC	185,919		13,995
66.454	Water Quality Management Planning	EEC	173,165		10,000
<b>Clean Water State Revolving Fund Cluster:</b>					
66.458	Capitalization Grants for Clean Water State Revolving Funds	EEC PARKS	1,005,179		
<b>Total Clean Water State Revolving Fund Cluster:</b>			<b>1,005,179</b>		
66.460	Nonpoint Source Implementation Grants	EEC	1,703,575		1,653,084
66.461	Regional Wetland Program Development Grants	EEC	81,941		81,941
<b>Drinking Water State Revolving Fund Cluster:</b>					
66.468	Capitalization Grants for Drinking Water State Revolving Funds	EEC	4,187,653		119,586
<b>Total Drinking Water State Revolving Fund Cluster:</b>			<b>4,187,653</b>		<b>119,586</b>
66.474	Water Protection Grants to the States (Note 14)	COT			
66.605	Performance Partnership Grants (Note 10)	EEC	8,349,847	226,807	830,158
		AGR	558,893		
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	EEC	67,575		
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	CHFS	281,845		40,083
66.717	Source Reduction Assistance	EEC	27,092		6,654
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	EEC	163,195		
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	EEC	458,927		
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	EEC	1,609,355		
66.809	Superfund State and Indian Tribe Core Program-Cooperative Agreements	EEC	121,000		
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	EEC	49,000		49,000
<b>Total U.S. Environmental Protection Agency</b>			<b>\$ 19,824,660</b>	<b>\$ 321,529</b>	<b>\$ 2,972,596</b>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Energy					
Direct Programs:					
81.041	State Energy Program	EEC	\$ 610,103	\$	\$ 114,302
81.041	ARRA-State Energy Program (Note 13) (Note 14)	DLG	2,933		
		EDU			
		CED			
81.042	Weatherization Assistance for Low-Income Persons (Note 14)	FAC			
81.042	ARRA-Weatherization Assistance for Low-Income Persons (Note 13)(Note 14)	FAC			
81.104	Environmental Remediation and Waste Processing and Disposal	EEC	695,453		
		CHFS	480,017		
81.119	State Energy Program Special Projects	EEC	218,210		81,005
		DLG	171,241		117,281
81.128	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG) (Note 13)	DLG	178,324		178,324
		PPC			
81.138	State Heating Oil and Propane Program	EEC	9,361		
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight (Note 14)	CHFS			
Total U.S. Department of Energy			\$ 2,365,642	\$	\$ 490,912
U.S. Department of Education					
Direct Programs:					
84.010	Title I Grants to Local Educational Agencies (Note 2)	EDU	\$ 218,489,155	\$	\$ 211,912,738
84.011	Migrant Education_State Grant Program	EDU	7,686,036		7,490,084
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	JUV	813,470		511,224
		CORR	26,407		
		EDU	24,435		
Special Education Cluster (IDEA):					
84.027	Special Education_Grants to States (Note 2)	EDU	153,099,082		150,991,536
84.173	Special Education_Preschool Grants (Note 2)	EDU	9,309,438		8,909,593
Total Special Education Cluster (IDEA):			162,408,520		159,901,129
84.048	Career and Technical Education -- Basic Grants to States	EDU	17,492,923		15,027,090
		CORR	60,625		
		EPSB	23,659		
		DWI			
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States (Note 2)	DWI	60,234,252		3,473,382
84.128	Rehabilitation Services_Service Projects (Note 14)	DWI			
84.144	Migrant Education_Coordination Program	EDU	46,295		15,389
84.161	Rehabilitation Services_Client Assistance Program	DWI	94,691		
84.169	Independent Living_State Grants (Note 14)	DWI			
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	DWI	576,401		
84.181	Special Education-Grants for Infants and Families	CHFS	6,987,593		
84.184	School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs)	EDU	139,961		138,432
84.186	Safe and Drug-Free Schools and Communities_State Grants (Note 14)	EDU			
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	DWI	360,087		
84.196	Education for Homeless Children and Youth	EDU	1,096,563		1,071,058
84.206	Javits Gifted and Talented Students Education	EDU	8,998		6,955
84.213	Even Start_State Educational Agencies (Note 14)	EDU			
84.215	Fund for the Improvement of Education (Note 14)	KHS			
84.224	Assistive Technology	DWI	20,158		12,510
84.235	Rehabilitation Services Demonstration and Training Programs	DWI	452,020		201,277
84.240	Program of Protection and Advocacy of Individual Rights	PUBAD	183,191		
84.243	Tech-Prep Education (Note 14)	DWI			
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	DWI	113,812		
84.287	Twenty-First Century Community Learning Centers	EDU	15,818,358		15,775,663
84.298	State Grants for Innovative Programs (Note 14)	EDU			
84.318	Educational Technology State Grants (Note 14)	EDU			
84.323	Special Education - State Personnel Development	EDU	1,074,900		962,063
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	EDU	150,328		150,328
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	EDU	520,032		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Education (Continued)					
Direct Programs (Continued):					
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals (Note 14)	CORR			
84.336	Teacher Quality Partnership Grants (Note 14)	EPSB			
84.343	Assistive Technology_State Grants for Protection and Advocacy	PUBAD	36,929		
84.357	Reading First State Grants	EDU	488,340		
84.358	Rural Education	EDU	5,124,658		5,091,774
84.365	English Language Acquisition State Grants	EDU	3,812,490		3,632,829
84.366	Mathematics and Science Partnerships	EDU	1,360,651		1,240,418
84.367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants) (Note 2)	EDU	34,127,656		33,171,651
		EPSB	504,050		
84.369	Grants for State Assessments and Related Activities	EDU	7,878,000		
84.372	Statewide Longitudinal Data Systems	DWI	1,772,086		
		EDU			
84.377	School Improvement Grants	EDU	3,469,259		3,282,203
84.388	ARRA-School Improvement Grants, Recovery Act (Note 13)(Note 14)	EDU			
84.397	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act (Note 13)(Note 14)	CORR			
		FAC			
84.412	Race to the Top – Early Learning Challenge	CHFS	6,205,744		6,120,862
		GOV	558,884		
		EDU	504,365		64,814
84.413	Race to the Top	EDU	3,549,968		3,549,968
84.416	Race to the Top - District Grants	DWI	222,091		
Total U.S. Department of Education			\$ 564,518,041	\$	\$ 472,803,841
U.S. National Archives and Records Administration					
Direct Programs:					
89.003	National Historical Publications and Records Grants	DLA	\$ 2,848	\$	\$
Total U.S. National Archives and Records Administration			\$ 2,848	\$	\$
U.S. Election Assistance Commission					
Direct Programs:					
90.401	Help America Vote Act Requirements Payments (Note 7)	KBE	\$ 100,320	\$	\$
Total U.S. Election Assistance Commission			\$ 100,320	\$	\$
U.S. Department of Health and Human Services					
Direct Programs:					
93.003	Public Health and Social Services Emergency Fund -- Reinstated (Note 14)	CHFS	\$	\$	\$
93.041	Special Programs for the Aging Title VII, Chapter 3_ Programs for Prevention of Elder Abuse, Neglect, and Exploitation	CHFS	68,205		68,205
93.042	Special Programs for the Aging Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	CHFS	127,612		120,662
93.043	Special Programs for the Aging Title III, Part D_Disease Prevention and Health Promotion Services	CHFS	289,739		285,769
Aging Cluster:					
93.044	Special Programs for the Aging Title III, Part B_Grants for Supportive Services and Senior Centers	CHFS	5,234,661		5,045,299
93.045	Special Programs for the Aging Title III, Part C_Nutrition Services	CHFS	8,543,978		8,359,550
93.053	Nutrition Services Incentive Program	CHFS	2,051,445		2,048,965
Total Aging Cluster:			15,830,084		15,453,814
93.048	Special Programs for the Aging Title IV_ and Title II_Discretionary Projects	CHFS	337,357		
93.051	Alzheimer's Disease Demonstration Grants to States	CHFS	75,047		74,989
93.052	National Family Caregiver Support, Title III, Part E	CHFS	1,838,007		1,777,644
93.069	Public Health Emergency Preparedness (Note 10)	CHFS	7,717,096	202,831	4,547,860
93.070	Environmental Public Health and Emergency Response	CHFS	374,882		65,144
93.071	Medicare Enrollment Assistance Program	CHFS	519,196		458,167
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	CHFS	795,829		665,557
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	EDU	60,812		
93.087	Enhance Safety of Children Affected by Substance Abuse	CHFS	357,889		126,159

See accompanying Notes to the Schedule of Expenditures of Federal Awards



**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	CHFS	680,800		609,526
93.103	Food and Drug Administration_Research	CHFS	374,870		
93.110	Maternal and Child Health Federal Consolidated Programs	CHFS	337,592		238,157
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	CHFS	575,734		280,323
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	CHFS	174,622		
93.136	Injury Prevention and Control Research and State and Community Based Programs	CHFS	470,017		470,017
		DCJT	5,821		
93.138	Protection and Advocacy for Individuals with Mental Illness (Note 14)	PUBAD			
93.150	Projects for Assistance In Transition from Homelessness (PATH)	CHFS	467,527		463,949
93.217	Family Planning_Services	CHFS	3,166,503		2,477,963
93.230	Consolidated Knowledge Development and Application (KD&A) Program (Note 14)	CHFS			
93.235	Affordable Care Act (ACA) Abstinence Education Program	CHFS	886,820		763,536
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance (Note 7)	CHFS	5,054,674		3,124,722
		AOC	1,441,021		
		EDU	628,857		558,285
		CORR	102,714		
93.251	Universal Newborn Hearing Screening	CHFS	245,565		
93.267	State Grants for Protection and Advocacy Services	PUBAD	42,041		
93.268	Immunization Cooperative Agreements (Note 2) (Note 10)	CHFS	4,013,002	49,217,331	1,409,083
93.270	Adult Viral Hepatitis Prevention and Control	CHFS	114,202		
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	CHFS	4,891,264		2,786,435
93.292	National Public Health Improvement Initiative	CHFS	400		
93.296	State Partnership Grant Program to Improve Minority Health	CHFS	61,089		4,458
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	CHFS	524,491		
93.324	State Health Insurance Assistance Program	CHFS	1,780,200		720,951
93.369	ACL Independent Living State Grants	DWI	370,317		332,991
93.464	ACL Assistive Technology	DWI	660,359		487,071
93.504	Family to Family Health Information Centers	CHFS	103,507		
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	CHFS	5,684,240		4,050,989
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	CHFS	326,184		
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	PPC	367,889		
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers (Note 14)	CHFS			
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	CHFS	382,578		
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	CHFS	28,554,631		
		PPC			
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	CHFS	882,230		95,663
93.556	Promoting Safe and Stable Families	CHFS	4,591,415		3,918,449
TANF Cluster:					
93.558	Temporary Assistance for Needy Families (Note 2)	CHFS	167,162,184		24,787,047
	Total TANF Cluster:		167,162,184		24,787,047
93.563	Child Support Enforcement (Note 2)	CHFS	37,387,973		23,677,443
		AOC	63,694		
93.564	Child Support Enforcement Research (Note 14)	CHFS			
93.568	Low-Income Home Energy Assistance (Note 2)	CHFS	44,416,962		44,316,404
93.569	Community Services Block Grant	CHFS	11,137,622		11,055,814
CCDF Cluster:					
93.575	Child Care and Development Block Grant (Note 2)	CHFS	51,122,050		7,295,677
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	CHFS	24,111,749		4,313,663
	Total CCDF Cluster:		75,233,799		11,609,340

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Direct Programs (Continued):					
93.586	State Court Improvement Program	AOC	485,925		
93.590	Community-Based Child Abuse Prevention Grants	CHFS	2,387,993		2,292,762
93.597	Grants to States for Access and Visitation Programs	CHFS	94,408		93,916
93.599	Chafee Education and Training Vouchers Program (ETV)	CHFS	563,593		
93.600	Head Start	GOV	178,890		
		EDU			
93.603	Adoption and Legal Guardianship Incentive Payments	CHFS	839,879		839,879
93.617	Voting Access for Individuals with Disabilities_Grants To States (Note 7)	KBE	107,222		
93.618	Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	PUBAD	64,170		
93.624	ACA-State Innovation Models: Funding for Model Design and Model Testing Assistance	CHFS	1,845,919		
93.627	Affordable Care Act: Testing Experience and Functional Assessment Tools	CHFS	250,192		
93.630	Developmental Disabilities Basic Support and Advocacy Grants	CHFS	1,254,588		
		PUBAD	622,304		
93.643	Children's Justice Grants to States	CHFS	216,430		
93.645	Stephanie Tubbs Jones Child Welfare Services Program	CHFS	4,284,421		
93.647	Social Services Research and Demonstration (Note 14)	CHFS			
93.658	Foster Care_Title IV-E (Note 2)	CHFS	42,463,984		3,313,988
		JUV	1,692,134		
		AOC	485,797		
93.659	Adoption Assistance (Note 2)	CHFS	50,338,298		
93.667	Social Services Block Grant	CHFS	13,352,018		31,900
		JUV	8,560,622		
		FAC			
93.667	ARRA-Social Services Block Grant (Note 13)(Note 14)	CHFS			
93.669	Child Abuse and Neglect State Grants	CHFS	267,747		121,874
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	CHFS	1,417,995		1,414,486
93.674	Chafee Foster Care Independence Program	CHFS	2,019,738		1,499,214
93.708	ARRA-Head Start (Note 13) (Note 14)	GOV			
		EDUC			
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance-financed in part by the Prevention and Public Health Fund (PPHF)	CHFS	686,681		
93.734	Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs-financed by Prevention and Public Health Funds (PPHF)	CHFS	183,524		62,508
93.735	State Public Health Approaches for Ensuring Quitline Capacity-Funded in part by Prevention and Public Health Funds (PPHF)	CHFS	429,860		
93.744	PPHF: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by Prevention and Public Health Funds (Note 14)	CHFS			
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	CHFS	357,437		252,792
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	CHFS	635,641		539,051
93.767	Children's Health Insurance Program (Note 2)	CHFS	288,189,286		
Medicaid Cluster:					
93.775	State Medicaid Fraud Control Units (Note 2)	OAG	2,631,444		
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Note 2)	CHFS	8,497,401		
93.778	Medical Assistance Program (Note 2)	CHFS	7,661,938,558		
93.778	ARRA-Medical Assistance Program (Note 2)(Note 13)	CHFS	32,731,792		
Total Medicaid Cluster:			7,705,799,195		

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of Health and Human Services (Continued)</u>					
Direct Programs (Continued):					
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	CHFS	2,714,301		69,153
93.800	Organized Approaches to Increase Colorectal Cancer Screening	CHFS	97,948		55,547
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).	CHFS	319,903		350
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	CHFS	323,760		318,883
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services	CHFS	385,349		25,000
93.889	National Bioterrorism Hospital Preparedness Program	CHFS	2,739,017		1,602,354
		MIL	117,748		5,226
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	DWI	63,912		22,613
93.917	HIV Care Formula Grants	CHFS	7,011,632		6,588,124
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (Note 14)	EDU			
93.940	HIV Prevention Activities_Health Department Based	CHFS	1,403,518		649,793
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	CHFS	270,137		107,119
93.945	Assistance Programs for Chronic Disease Prevention and Control	CHFS	1,667,106		981,374
		EDU	288,821		24,354
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	CHFS	24,090		
93.958	Block Grants for Community Mental Health Services	CHFS	6,991,102		5,964,497
		DWI	179,195		179,195
		CORR	40,067		
93.959	Block Grants for Prevention and Treatment of Substance Abuse	CHFS	19,126,959		17,422,721
		KSP			
		JUST			
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants (Note 10)	CHFS	1,203,212	383,913	159,331
93.991	Preventive Health and Health Services Block Grant	CHFS	2,883,957		1,897,345
93.994	Maternal and Child Health Services Block Grant to the States	CHFS	12,931,393		5,757,155
93.U01	Other Federal Assistance (Note 1)(Note 15)	CHFS	234,368		
		KSP	11,509		
93.U02	Medicare Nursing Home Care (Note 1)(Note 15)	VA	2,050,696		
Total U.S. Department of Health and Human Services			\$ 8,624,912,756	\$ 49,804,075	\$ 214,175,090
<u>U.S. Corporation for National and Community Service</u>					
Direct Programs:					
94.003	State Commissions	CHFS	\$ 232,782	\$	\$
94.004	Learn and Serve America_School and Community Based Programs (Note 14)	EDU			
		CORR			
94.006	AmeriCorps	CHFS	4,322,571		4,322,571
Foster Grandparent/Senior Companion Cluster:					
94.011	Foster Grandparent Program	CHFS	88,461		
Total Foster Grandparent/Senior Companion Cluster:			88,461		
Total U.S. Corporation for National and Community Service			\$ 4,643,814	\$	\$ 4,322,571
<u>U.S. Office of National Drug Control Policy</u>					
Direct Program:					
95.001	High Intensity Drug Trafficking Areas Program	KSP	\$ 1,108,786	\$	\$
		OAG	94,559		
Total U.S. Office of National Drug Control Policy			\$ 1,203,345	\$	\$
<u>U.S. Social Security Administration</u>					
Direct Programs:					
Disability Insurance/SSI Cluster:					
96.001	Social Security_Disability Insurance (Note 2)	CHFS	\$ 47,108,838	\$	\$
		OAG	425,411		
Total Disability Insurance/SSI Cluster:			47,534,249		

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

CFDA	Program Title	State Agency	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Social Security Administration (Continued)</u>					
Direct Programs (Continued):					
96.009	Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	PUBAD	91,654		
Total U.S. Social Security Administration			\$ 47,625,903	\$	\$
<u>U. S. Department of Homeland Security</u>					
Direct Programs:					
97.012	Boating Safety Financial Assistance	F&W	\$ 1,245,582	\$	\$
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	EEC	195,810		
97.029	Flood Mitigation Assistance	MIL	741,084		741,084
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	TC			
		TC	6,474,010		
		MIL	2,481,411		1,531,742
		PARKS	75,827		
		DWI			
97.039	Hazard Mitigation Grant	KSP			
		MIL	11,742,892		11,343,924
		MIL	19,278,156		17,054,007
		EEC	143,604		
		MIL	5,941,058		3,540,271
97.045	Cooperating Technical Partners	EEC	2,504,969		
97.047	Pre-Disaster Mitigation	MIL	1,220,268		872,925
97.048	Federal Disaster Assistance to Individuals and Households in Presidential Declared Disaster Areas	MIL	21,452,526		17,071,292
97.056	Port Security Grant Program	KSP	77,620		
97.067	Homeland Security Grant Program	F&W			
		KOHS	3,417,390		2,520,769
		KSP			
97.077	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection (Note 14)	KVE			
		TC			
		F&W			
97.078	Buffer Zone Protection Program (BZPP) (Note 14)	CHFS			
97.088	Disaster Assistance Projects (Note 14)	TC			
97.089	Driver's License Security Grant Program (Note 14)	MIL			
97.107	National Incident Management System (NIMS) (Note 14)	MIL			
97.110	Severe Repetitive Loss Program	MIL	4,536		4,536
Total U.S. Department of Homeland Security			\$ 76,996,743	\$	\$ 54,680,550
<u>Other Federal Assistance</u>					
Direct Programs:					
99.U01	Tennessee Valley Authority ( Note 1) (Note 14)	F&W	\$	\$	\$
Total Other Federal Assistance			\$	\$	\$
Total All State Agencies			\$ 11,294,238,857	\$ 1,088,504,764	\$ 1,269,640,794

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Note 1 - Basis of Presentation and Significant Accounting Policies**

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule includes the federal award activity of the Commonwealth, except those programs administered by state universities and other discretely presented component units, for the year ended June 30, 2016. Because the Schedule presents only a selected portion of the operations of the Commonwealth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commonwealth.

Significant Accounting Policies – Expenditures reported on the Schedule are presented on the modified cash basis of accounting as modified by the application of Kentucky Revised Statute (KRS) 45.229.

KRS 45.229(2) provides that “the Finance and Administration Cabinet may, for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during that year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last two pay periods of the fiscal year are charged to the next year.

All federal award expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Commonwealth has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary, and fiduciary fund financial statements.

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 2016. The noncash expenditures presented on the Schedule represent the noncash assistance expended using the method or basis of valuation described in Note 10.

Clusters of programs are indicated on the Schedule by light gray shading.

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)**

Programs that do not have Catalog of Federal Domestic Assistance (CFDA) numbers are identified using the two-digit federal identifier prefix, the letter "U" for Unknown, and a preassigned two-digit number. Additional identifying factors used by the Commonwealth are described in Note 15.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Schedule:

- (a) Federal funds may be received by a state agency and passed through to another state agency where the monies are expended. Except for pass-throughs to state universities and discretely presented component units as discussed below, this inter-agency transfer activity is reported by the agency expending the monies.

State agencies that pass federal funds to state universities and discretely presented component units report those amounts as expenditures.

- (b) Federal funds received by a state agency and used to purchase goods or services from another state agency are reported in the Schedule as expenditures by the purchasing agency only.

**Note 2 - Type A Programs**

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$30,000,000 for FY 2016. The Commonwealth had the following programs (cash and noncash) that met the Type A program definition for FY 2016, some of which were administered by more than one state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. The Commonwealth identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

<b>CFDA</b>	<b>Program Title</b>	<b>Expenditures</b>
<b>Supplemental Nutrition Assistance Program Cluster</b>		
<b>10.551</b>	Supplemental Nutrition Assistance Program	\$ 998,012,468
<b>10.561</b>	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	66,019,517
<b>Child Nutrition Cluster</b>		
<b>10.553</b>	School Breakfast Program	85,133,579
<b>10.555</b>	National School Lunch Program	240,845,099
<b>10.556</b>	Special Milk Program for Children	24,946
<b>10.559</b>	Summer Food Service Program for Children	6,887,857



**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 2 - Type A Programs (Continued)**

<b>CFDA</b>	<b>Program Title</b>	<b>Expenditures</b>
<b>10.557</b>	Special Supplemental Nutrition Program for Women, Infants, and Children	114,578,062
<b>10.558</b>	Child and Adult Care Food Program	38,287,713
<b>17.225</b>	Unemployment Insurance	382,720,154
<b>Workforce Investment Act Cluster</b>		
<b>17.258</b>	WIA/WIOA Adult Program	13,924,243
<b>17.259</b>	WIA/WIOA Youth Activities	10,984,487
<b>17.278</b>	WIA/WIOA Dislocated Worker Formula Grants	12,949,514
<b>Highway Planning and Construction Cluster</b>		
<b>20.205</b>	Highway Planning and Construction	751,193,292
<b>20.205</b>	ARRA-Highway Planning and Construction	76,695
<b>20.219</b>	Recreational Trails Program	820,131
<b>84.010</b>	Title 1 Grants to Local Educational Agencies	218,489,155
<b>Special Education Cluster</b>		
<b>84.027</b>	Special Education_Grants to States	153,099,082
<b>84.173</b>	Special Education_Preschool Grants	9,309,438
<b>84.126</b>	Rehabilitation Services_Vocational Rehabilitation Grants to States	60,234,252
<b>84.367</b>	Supporting Effective Instruction State Grant	34,631,706
<b>93.268</b>	Immunization Cooperative Agreements	53,230,333

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 2 - Type A Programs (Continued)**

<b>CFDA</b>	<b>Program Title</b>	<b>Expenditures</b>
<b>Temporary Assistance for Needy Families Cluster</b>		
<b>93.558</b>	Temporary Assistance for Needy Families	167,162,184
<b>93.563</b>	Child Support Enforcement	37,451,667
<b>93.568</b>	Low-Income Home Energy Assistance	44,416,962
<b>Child Care Cluster</b>		
<b>93.575</b>	Child Care and Development Block Grant	51,122,050
<b>93.596</b>	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	24,111,749
<b>93.658</b>	Foster Care_Title IV-E	44,641,915
<b>93.659</b>	Adoption Assistance	50,338,298
<b>93.767</b>	Children's Health Insurance Program	288,189,286
<b>Medicaid Cluster</b>		
<b>93.775</b>	State Medicaid Fraud Control Units	2,631,444
<b>93.777</b>	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	8,497,401
<b>93.778</b>	Medical Assistance Program	7,661,938,558
<b>93.778</b>	ARRA-Medical Assistance Program	32,731,792
<b>Disability Insurance/Supplemental Security Income Cluster</b>		
<b>96.001</b>	Social Security_Disability Insurance	47,534,249
<b>Total Type A Programs</b>		<b>\$ 11,712,219,278</b>

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 3 - Federally Assisted Loan Program CFDA 10.U01**

The Kentucky Rural Rehabilitation Student Loan Program was initially awarded \$672,629 in 1970 by the U. S. Farmers Home Administration. Since 1970, the program has operated on interest from student loans outstanding and on income from investments administered by the Office of Financial Management. The Department of Agriculture is no longer in the business of making student loans and reassigned all loans in payment compliance to the Kentucky Higher Education Assistance Authority (KHEAA). The Department of Agriculture retained only those loans that had a delinquent payment history. This program is currently in phase-out status, with authorization from the U. S. Department of Agriculture (USDA) to eliminate the principal through issuance of specific grants and scholarships.

All outstanding loans have been classified as contingent uncollectible liabilities; however, if loan payments are received, they are directly deposited into the principal account. As of June 30, 2016, outstanding student loans totaled \$64,466. There were no new grants or scholarships authorized by the USDA in FY 2016.

**Note 4 - Unemployment Insurance (CFDA 17.225)**

The Commonwealth paid out \$349,848,424 in benefits in FY 2016. The amounts shown on the accompanying Schedule reflect both the amount expended for benefits from the Trust Fund and an additional \$32,872,149 of federal funds expended for administration of the program, resulting in a combined total of \$382,720,573 in federal expenditures. Included in this amount is \$419 in benefit payments funded by the American Recovery and Reinvestment Act (ARRA).

**Note 5 - Highway Planning and Construction (CFDA 20.205)**

The information reported for the Highway Planning and Construction program represents the activity of all open projects during FY 2016. These projects were funded from several apportionments. Apportionments refer to a federal, statutorily prescribed division or assignment of funds. The expenditures reflected on the Schedule include expenditures for advance construction projects, which are not yet under agreements with the Federal Highway Administration

Expenditures for the Highway Planning and Construction Program were shown net of any refunds, resulting from a reimbursement of prior or current year expenditures. Refunds totaled \$431,649 for FY 2016.

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 6 - Outdoor Recreation Acquisition, Development and Planning**  
**(CFDA 15.916) and Recreational Trails Program (CFDA 20.219)**

Administrative costs are shown as expended when received from the federal government. These costs are recovered through a negotiated, fixed indirect cost rate. Any over or under recovery will be recouped in the future.

**Note 7 - Research and Development Expenditures**

Title 2 U.S. Code of Federal Regulations Part 200.87 provides that, "Research and development (R&D)" means all research activities, both basic and applied, and all development activities that are performed by non-Federal entities."

The expenditures presented in the Schedule include R&D expenditures. The R&D portions of the expenditures for each program are listed below.

<b>CFDA</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures</b>
<b>15.605</b>	Sport Fish Restoration Program	F&W	\$ 452,305
<b>15.615</b>	Cooperative Endangered Species Conservation Fund	F&W	15,766
<b>15.634</b>	State Wildlife Grants	F&W	754,436
<b>16.585</b>	Drug Court Discretionary Grant Program	AOC	133,371
<b>16.745</b>	Criminal and Juvenile Justice and Mental Health Collaboration Program	AOC	15,658
<b>39.011</b>	Election Reform Payments	KBE	323,658
<b>90.401</b>	Help America Vote Act Requirements Payments	KBE	100,320
<b>93.243</b>	Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	AOC	287,946
<b>93.617</b>	Voting Access for Individuals With Disabilities_Grants to States	KBE	107,222
<b>Total Research and Development Expenditures</b>			<b>\$ 2,190,682</b>

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 8 - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA 14.228)**

The Commonwealth matches the federal portion of administration dollar for dollar. Cash expenditures include the federal portion of administration.

**Note 9 - Wildlife Restoration and Basic Hunter Education (CFDA 15.611)**

The Department of Fish and Wildlife Resources leases properties from the U.S. Army Corp of Engineers for Condition Three and Condition Five Projects. These projects stipulate that the properties leased be managed for wildlife purposes and may produce income. The leases for wildlife management rights on these properties are non-monetary. The Department of Fish and Wildlife Resources currently leases the following properties:

Barren River	Birdsville Island
Green River	Lake Cumberland
Dewey Lake	Paintsville Lake
Fishtrap Lake	Sloughs-Grassy Pond
Barlow Bottoms-Olmstead	Taylorsville Lake

Any expenditure in excess of revenue from each property listed above will be eligible for reimbursement under the Wildlife Restoration and Basic Hunter Education grant (CFDA 15.611) from the U.S. Department of the Interior. The properties listed above are not reimbursed with federal funds if the grant has already been expended to manage other wildlife properties.

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 10 - Noncash Expenditure Programs**

The Commonwealth's noncash programs and a description of the method/basis of valuation for FY 2016 are as follows:

<b>CFDA</b>	<b>Program Title</b>	<b>Amount</b>	<b>Method/Basis of Valuation</b>
<b>10.551</b>	Supplemental Nutrition Assistance Program	\$ 998,012,468	EBT Issuance
<b>10.555</b>	National School Lunch Program	25,677,369	Commodities issued for FY16 per WBSCM report
<b>10.565</b>	Commodity Supplemental Food Program	5,950,660	Commodities issued for FY16 per WBSCM report
<b>10.569</b>	Emergency Food Assistance Program (Food Commodities)	8,255,188	Commodities issued for FY16 per WBSCM report
<b>12.700</b>	Donations/Loans of Obsolete DOD Property	231,654	Acquisition Cost determined by the Department of Defense
<b>39.003</b>	Donation of Federal Surplus Personal Property	251,821	22.47% of federal acquisition cost (\$1,120,700)
<b>66.034</b>	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	94,722	EPA contracts with Eastern Research Group for sample analysis
<b>66.605</b>	Performance Partnership Grants	226,807	In-kind services valued by the donor, the U.S. Environmental Protection Agency
<b>93.069</b>	Public Health Emergency Preparedness	202,831	Grant Award Document
<b>93.268</b>	Immunization Cooperative Agreements	49,217,331	CDC Report
<b>93.977</b>	Preventive Health Services_Sexually Transmitted Diseases Control Grants	383,913	Grant Award Document
<b>Total Noncash Expenditures</b>		<u><u>\$ 1,088,504,764</u></u>	

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 11 - Activity Occurring in Programs with Inventoriable Items**

The Department of Agriculture operates a state-wide Commodity Supplemental Food Program (CFDA 10.565). The dollar value of the inventory, based on the USDA Commodity File dated June 2016, is as follows:

	<b>Commodity Supplemental Food Program CFDA 10.565</b>
Beginning Inventory, July 1, 2015	\$ 1,183,931
Price Adjustment	(76,825)
Adjusted Inventory, July 1, 2015	<u>1,107,106</u>
Received Commodities	6,472,855
Issued to Recipients	(5,950,660)
Net Value of Inventory Adjustments, June 30, 2016	346,230
Ending Inventory, June 30, 2016	<u><u>\$ 1,975,531</u></u>

**Note 12 - Election Reform Payments (CFDA 39.011)**

Interest earned must be used for additional program expenditures.

**Note 13 - Pertaining to ARRA**

In order to identify ARRA funds on the Schedule of Expenditures of Federal Awards, the prefix will precede the Program Title on the Grantor Schedule.

**Note 14 - Zero Expenditure Programs**

These programs had no expenditures related to the respective state organization during FY 2016. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures. For CFDA numbers with multiple state agencies listed, the schedule is presented in descending expenditure amount order.

**COMMONWEALTH OF KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Continued)**

**Note 15 - Unknown CFDA Number**

When a federal program has been awarded to the Commonwealth with an unknown CFDA number, the methodology discussed in Note 1 - *Basis of Presentation and Significant Accounting Policies* is used to prepare the Schedule. The Commonwealth also uses other identifiers such as the major program, program, and function codes as established through grant accounting. A list of unknown CFDA numbers and other identifying factors having expenditures during FY 2016 are listed below:

<b>CFDA</b>	<b>Program Title</b>	<b>Agency</b>	<b>Award Identifier</b>	<b>Expenditures</b>
<b>10.U02</b>	HWA Participating Agreement with Daniel Boone National Forest	EEC	11-PA-11080224-027	\$ 62,025
<b>12.U01</b>	Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	EEC	ACWPRG-04-BBB0	954,085
<b>12.U02</b>	Teacher and Teacher's Aide Placement Assistance Program	EPSB	51799-5179900-EPBE	91,034
<b>15.U01</b>	Clark River NWR Fish Survey	F&W	FWS1-CLRKRVRSRV	11,422
<b>16.U01</b>	Drug Enforcement Administration	KSP	DEA-FAMJ15MJ; DEA-FAMJ16MJ; OCDETF-MJTF13BG; OCDETF-MJTF1508; OCDETF-MJTF1510; OCDETF-LTDTF15; OCDETF-LTDTF16; OCDETF-MJTF1607; OCDETF-MJTF1608; OCDETF-MJTF1610; OCDETF-MJTF16BG; OCDETF-UNCLE16	2,046,878
<b>16.U02</b>	Federal Bureau of Investigation	KSP	OCDETF-JTTF14LT; OCDETF-JTTF16LT; OCDETF-KCETF15CT; OCDETF-KCETF16CT	37,816
<b>16.U03</b>	Bureau of Alcohol, Tobacco, Firearms & Explosives (ATF) Program	KSP	ATF-ATF15AT; ATF-ATF16AT	32,493
<b>16.U04</b>	District Fugitive Task Force	KSP	OCDETF-TSKFRCE15; OCDETF-TSKFRCE16	15,954
<b>16.U05</b>	Equitable Sharing Asset Forfeiture	KSP	KY-KSP-0000	1,570,498
<b>21.U03</b>	State Small Business Credit Initiative	CED	GEXP-6-11SB200Z-GEXP	4,973,308
<b>93.U01</b>	Other Federal Assistance	CHFS	05-1605-KY-5002	234,368
<b>93.U01</b>	Other Federal Assistance	KSP	FDA-FDA15; FDA-FDA16	11,509
<b>93.U02</b>	Medicare Nursing Home Care	VA	KY-074-1324-DA00-R604	2,050,696



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

**Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of  
Financial Statements Performed In Accordance With  
*Government Auditing Standards***

**Independent Auditor's Report**

Honorable Matthew G. Bevin, Governor  
Cabinet Secretaries and Agency Heads  
Members of the Commonwealth of Kentucky Legislature

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth of Kentucky as of and for the Fiscal Year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 14, 2016. Our report includes a reference to other auditors who audited the financial statements of certain component units and funds, as listed in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Commonwealth's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of financial statement findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of  
Financial Statements Performed In Accordance With  
*Government Auditing Standards*  
(Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of financial statement findings to be material weaknesses: 2016-001 and 2016-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies, described in the accompanying schedule of financial statement findings, to be significant deficiencies: 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, 2016-011, 2016-012, 2016-013, 2016-014, 2016-015, 2016-016, 2016-017, 2016-018, 2016-019, 2016-020, 2016-021, 2016-022, 2016-023, 2016-024, 2016-025, 2016-026, 2016-027, 2016-028, 2016-029, 2016-030, 2016-031, 2016-032, 2016-033, 2016-034, 2016-035, 2016-036, 2016-037, 2016-038, 2016-039, 2016-040, 2016-041, 2016-042, and 2016-043.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliances or other matters that would be required to be reported under *Government Auditing Standards*.

***Management's Responses to Findings***

Management's responses to the findings identified in our audit are described in the accompanying schedule of financial statement findings. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of  
Financial Statements Performed In Accordance With  
*Government Auditing Standards*  
(Continued)

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Mike H", followed by a horizontal line.

Mike Harmon  
Auditor of Public Accounts

December 14, 2016



## **FINANCIAL STATEMENT FINDINGS**





## **FINANCIAL STATEMENT FINDINGS**

### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation**

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Benefind is a part of the Kentucky Health Benefit Exchange (KHBE) and is the benefits eligibility and enrollment system for CHFS. The system was launched on February 29, 2016 and replaced the former CHFS benefits eligibility and enrollment system known as Kentucky Automated Management and Eligibility System (KAMES). The fiscal year (FY) 2016 audit of the Cabinet for Health and Family Services (CHFS) revealed the Benefind application was not adequately tested and the identified defects were not corrected prior to implementation to ensure the application would function as intended. Further, CHFS staff were not sufficiently trained and prepared to deal with work arounds and errors prior to the implementation of the system.

Although statements were made by agency management indicating testing had been completed prior to implementation, during March 2016, there were a significant number of unanticipated technical issues with Benefind. These issues included:

- Distribution of form letters from Benefind telling consumers their health coverage has been cut off or requiring more information, such as proof of income or citizenship, to retain eligibility.
- Kynectors, private sector benefit application assistants contracted with CHFS, were not granted access to Benefind due to federal requirements over access to data. This change severely limited the ability of Kynectors to assist citizens with applying for benefits and placed a heavier burden on CHFS staff to address concerns.
- Instances of statewide disruption to citizens' health coverage, food stamps, and other related assistance.
- Information was identified that did not match between KAMES and Benefind, requiring case workers to make corrections to the information within Benefind and in some instances request additional information from individuals.
- Due to the complexity of some cases, a backlog of approximately 30,000 cases required the creation of a workgroup of approximately 100 caseworkers to assist in Frankfort with addressing these particular cases. This group was comprised of 25 caseworkers from each of the four regions.

As of April 2016, there were approximately 600 defects identified in Benefind since implementation.

A 27-page guide, the "R5 Worker Portal Defect Workaround Guide," was created for the case workers to help them address known defects within the system in order to get the cases processed for the applicants. However, this guide was only provided to case workers in draft form on February 25, 2016, approximately two working days prior to implementation. Since that time CHFS has made updates to this guide, including videos and tips to perform workarounds for staff.

As a result of the problems noted with the implementation of Benefind, and the conversion from KAMES, extensive testing was performed to verify that adequate documentation was present in the electronic case file to support the case disposition. Such supporting documentation included verification of wage information, signed applications, social security cards, and qualified alien documentation.

## **FINANCIAL STATEMENT FINDINGS**

### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation (Continued)**

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In addition, audit procedures were performed to test Benefind's ability to carry out certain essential functions in eligibility determinations, such as to accurately determine eligibility based on income, the system's ability to terminate benefits based on the lack of Social Security card verification, the system's ability to indicate and perform eligibility re-determination every 13 months, and the system's ability to document approvals administered on case actions.

The results of testing revealed that pertinent supporting documentation was not present within the electronic case files and also cases that were intended for conversion did not always convert from KAMES to Benefind correctly. Weaknesses were identified in certain key functions as it pertains to eligibility determination, re-determination, and termination.

Testing identified the following exceptions:

- Sixty-five instances in which the electronic case file did not contain the appropriate signed application.
- Five instances in which there were no approvals for case dispositions made within the system.
- Three instances where the electronic case file did not contain wage verification information.
- Forty-eight instances where the members' Social Security Number was not verified by the Social Security Administration.
- Twenty-three instances where the electronic case file did not contain documentation of the members' Alien Status.
- Four instances in which a qualified alien was approved for benefits prior to a mandatory five year waiting period.
- Nine instances in which an applicant who was not a qualified Alien received benefits past a limited period.
- Fifty instances in which eligibility re-determination was not documented.
- Nine instances in which cases did not convert correctly, or the conversion occurred with errors.
- Seventy-two instances in which the Medicaid Penalty Form was not in the electronic case file.

Since implementation, CHFS has made efforts to address the Benefind issues. For instance, CHFS has performed periodic updates to the system to address the defects. Further, the agency created a rapid response team to address accidental drop-offs and other issues that did not have a work around option. However, despite these efforts, there were ongoing issues associated with Benefind during the second half of FY 2016.

Originally, the planned implementation date for Benefind was December 4, 2015; however, as there were known issues, the date was postponed to December 28, 2015 to allow additional time to work through those issues. The rollout was further delayed since Open Enrollment continued through January 2016. The last deferment was granted by the affected federal agencies until February 29, 2016. While there were still concerns about the system, which were communicated to the U.S. Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS), CHFS was told by CMS that Benefind had to go live on February 29, 2016. As a result, there were both known and unanticipated defects within the system at implementation.

## **FINANCIAL STATEMENT FINDINGS**

### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation (Continued)**

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In some cases, citizens experienced disruption in health coverage, food stamps, and other related assistance. Further, communications were sent out to a significant number of individuals providing erroneous or confusing information about their eligibility for assistance programs.

Because of the problems noted with the Benefind system, oversights, errors, and incorrect determinations could lead to miscalculations that misstate account balances for financial reporting purposes, as well as lead to significant questioned costs related to non-compliance with the applicable federal program requirements. As of June 30, 2016, audit testing identified errors totaling \$158,992 resulting from these problems.

The weaknesses increase the risks that eligibility determinations made through Benefind may be inaccurate.

Good internal controls over the system process are necessary to ensure that transactions are accurate, complete, consistent, and in compliance with all applicable laws and regulations. Furthermore, sound internal controls dictate that underlying accounting records, in this case the Benefind system, be complete and contain sufficient evidence to substantiate the validity of any authorized assistance and be supportive of decisions made for each case.

During the development life cycle of a new system, testing is an essential part of the development process that verifies and validates that an application or system performs the functions for which it has been intended and without any malfunction or adverse effect on other components of the systems. A test plan is designed early in the life cycle to help identify system defects and severity levels to address outstanding issues prior to implementation. Final acceptance testing is performed to verify that the application meets the documented technical specifications or deliverables and to ensure that the system is production-ready and satisfies all documented requirements. These procedures should occur before newly developed applications/systems are implemented.

Although it is likely with new implementations that work arounds may be necessary at implementation, if these occur, they should be fully documented and provided to staff in sufficient time for them to review and understand what situations are causing errors and how they are to address them. If there are a significant number of defects requiring work arounds that are identified prior to implementation, the agency should consider these as a whole and determine whether implementation should be postponed in order to permanently address the known defects.

## **FINANCIAL STATEMENT FINDINGS**

### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation (Continued)**

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##### **Recommendation**

We recommend CHFS continue to work closely with the vendor to ensure that all known defects are addressed in a timely fashion. In addition, any currently active work arounds should be reviewed and permanent solutions should be developed to address these situations. As these changes are made, CHFS should provide continuing training for all staff to ensure that they understand how known defects have been addressed and what continuing work arounds exist.

Due to the magnitude to which the Commonwealth is dependent upon the Benefind system to integrate eligibility determinations with benefit payments, it is important to consider additional emphasis be placed on ensuring the adequacy and accuracy of the information contained in the case files. Controls should be in place to ensure sufficient documentation is maintained to verify all eligibility determinations and benefit payment amounts, as well as contain sufficient support of case decisions.

Furthermore, taking the lessons learned from the implementation of the Benefind system, CHFS should revisit their procedures related to testing applications prior to implementation. These procedures should be expanded, as reasonable, to ensure the application will work properly and as anticipated at implementation. If deficiencies are identified during this process, there needs to be a process in place to explicitly determine the magnitude of each defect individually and collectively in order to determine whether an implementation can go forward or the defects must be resolved prior to implementation.

##### **Management's Response and Planned Corrective Action**

*The prior administration of Governor Steve Beshear initiated development of the benefind IT platform by issuing an RFP on May 23, 2012 to accomplish three apparent goals: 1. Implement the Health Benefit Exchange; 2. Develop a platform to enact Medicaid expansion; and, 3. Integrate the Cabinet's eligibility and enrollment systems onto a single, unified IT platform. While components of this system were implemented in phases, including the fifth phase known as "Release 5"; system design, development, procurement, and contracting occurred during the early stages of the project in 2012. The prior administration developed this unified IT system in response to a favorable Medicaid financial match that incentivized legacy system upgrades to incorporate the Medicaid expansion population and the anticipated increase in number of participants expected to participate in the Cabinet's benefits programs (SNAP, TANF, K-TAP, CCAP, etc.). In excess of \$70 million of federal match funds were spent on development of "Release 5" as of December 2015, and in excess of \$330 million were spent on the development and implementation of the benefind platform, including Release 5 and the Health Benefit Exchange.*

## FINANCIAL STATEMENT FINDINGS

### *Material Weaknesses Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation (Continued)**

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##### **Management's Response and Planned Corrective Action (Continued)**

*In consideration of the second scheduled go-live date of December 29th, 2015<sup>1</sup>, the current administration delayed the project and initiated a prompt review of system readiness. Following review of written documentation and receipt of assurances from [Vendor Name Redacted] and senior staff held over from the prior administration that Release 5 had been thoroughly user tested and piloted, and that all United States Department of Agriculture technical and programmatic guidelines had been met, the go-live date was rescheduled for February 29, 2016<sup>2</sup>. As part of the review, the Cabinet received reports from [Vendor Name Redacted] verifying that 7,000 user test cases passed, 240 performance tests were satisfactorily completed, and 200+ testers had been employed across CHFS (OATS, DMS, BDID, DAIL, partner agencies). [Vendor Name Redacted] represented that no severity 1 or 2 defects would remain before initiation of data conversion in anticipation of cutover from KAMES, and that all other minor issues had work-arounds. [Vendor Name Redacted] and senior staff also represented that staff involved in the transition had been adequately trained and that appropriate contingency plans to address post-release defects had been developed. Accordingly, [Vendor Name Redacted] represented that the system was ready for implementation.*

<sup>1</sup> *The prior administration set the December 29, 2015 release date and [Vendor Name Redacted] developed the system cutover schedule before the arrival of the current administration. The original implementation date was set for December 4, 2015, prior to the inauguration of Governor Bevin.*

<sup>2</sup> *The Cabinet received correspondence from the United States Food and Nutrition Services acknowledging that it had verified that all necessary federal policy components were included in the system and requested that the Cabinet move forward with implementation. The FNS expected the Cabinet to implement the system to address deficiencies in KAMES, which had not been modified to incorporate all current SNAP eligibility protocols.*

*Fact-finding discussions after go-live revealed that some frontline staff who participated in field piloting may not have believed that all necessary test scenarios were presented during the pilot and that certain adverse user acceptance scenario were ignored or were not reported up the chain. This information was not provided to current management before the go-live date. If current management had been apprised of this information before go-live, User Acceptance Test (UAT) and Pilot Test protocols implemented by [Vendor Name Redacted] would have been reviewed and the integrity of the results would have been challenged and validated. Notwithstanding this, the information gleaned from front-line staff would not alone have been adequate warning of the impending scope and severity of defects and programming deficiencies encountered at go-live. Additionally, the short duration of the delay was made in consideration of the Cabinet's contractual obligation to pay [Vendor Name Redacted] approximately \$3.5 million per month to cover staff assigned to the project.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation (Continued)**

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##### **Management's Response and Planned Corrective Action (Continued)**

*During the initial days after go-live, [Vendor Name Redacted] advised management that the primary issues encountered with Release 5 involved increased worker processing time and the need for hardware modifications and enhanced server capacity. When measures implemented to address hardware and server capacity proved inadequate, and as concerns from the field were elevated to Central Office, senior leadership began to ascertain the programming and structural defects in system design. In response, the Secretary of the Cabinet for Health and Family Services immediately empaneled a team comprised of senior leadership, program policy experts, [Vendor Name Redacted] management and programmers, and representatives from field offices for daily meetings, including meetings on weekends to address identified defects. As issues mounted, the Cabinet supplemented field operations with 120 additional [Vendor Name Redacted] IT staff to provide technical assistance with case processing and targeted training to improve worker efficiency. The Cabinet distributed a daily targeted plan to field supervisors with direction to prioritize cases based on due dates to lessen impact on SNAP and Medicaid applicants and recipients. A Rapid Fire Team was developed to improve customer service and to handle critical cases escalated for possible loss in benefits, and a team comprised of 100 DCBS field staff was located to Frankfort's technology command center to provide centralized processing. This team enabled [Vendor Name Redacted] to troubleshoot programming issues and identify solutions to incorporate into future programming and facilitated hands-on system training so users could serve as field mentors. Staffing within the Office of Ombudsman was augmented to address increased call volume and to ensure that every individual who reported a concern received a follow-up call within twenty-four hours of initial contact. The Cabinet created a cross-department team to review all auto-generated notification letters programmed into the system as accuracy was identified as lacking. After each daily session with [Vendor Name Redacted] and senior management, specific programming solutions were identified for implementation and a release date was targeted. The Cabinet also hosted telephonic and in-person conferences with federal Medicaid and United States Department of Agriculture partners and received approval to extend coverage and alter eligibility dates to enhance customer experience and to avoid benefit expiration. The Cabinet also employed additional security in field offices to assist with workflow and to ensure that client and employee safety received the highest priority.*

*While the Cabinet expected that this roll-out would bring with it some initial bumps and adverse impacts on employees and clients, and while the Cabinet exercised due diligence in its efforts to anticipate and address the bumps with contingency planning, it was quickly understood that the issues encountered were neither typical nor expected in certain cases and reflected significant design flaws.*

**FINANCIAL STATEMENT FINDINGS*****Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*The current administration also experienced significant customer service problems incident to the prior administration's decision to adopt a state-wide eligibility processing model. This model effectively reduced the number of field office staff available to assist clients in local DCBS offices and compounded problems encountered by individuals seeking assistance and support through the state-wide call system. The prior administration's decision to curtail training of key eligibility personnel with the expectation that certain eligibility applications could be processed centrally was ill-conceived and necessitated prompt retraining of staff and hiring of 100 additional Family Support eligibility workers to clear case backlogs and remain current with application processing.*

*The problems encountered with the roll-out of Release 5 reflect poor planning, ineffective training, questionable UAT and Pilot testing, and inadequate communication between [Vendor Name Redacted] and key management and policy staff. While converting back to KAMES was identified as a possible contingency by [Vendor Name Redacted] in its release cutover plan, it became apparent that this could not be accomplished without serious disruption of services and unacceptable impact on application processing. The cutover to Release 5 included several days of data conversion, which effectively sealed historical client information and prevented operation of a dual platform (KAMES and Release 5). In addition, policy rules programmed into KAMES were not compliant with federal requirements and this generated over 50,000 benefit mismatches that necessitated "manual conversion". This "manual conversion" required program staff to review and work through every aspect of the 50,000 applications to validate information for conversion. This additional basket of cases was an impediment to staff as they attempted to learn the nuances of this new system and stay current with processing.*

*The Cabinet has resolved all known IT issues and is not aware of any existing eligibility barriers other than normal delays associated with eligibility verification. Notwithstanding the Cabinet's correction of problems associated with the launch of Release 5, monitoring is ongoing and [Vendor Name Redacted] continues to participate in daily discussions and troubleshooting. The Cabinet will continue to work diligently to prioritize and address any new defects in a timely manner and will continue to hold team meetings as have occurred since March 2016. As defects are resolved, users are notified of corrective action via medication to Release Notes, updated Job Aids and Quick Reference Guides. All updates to system functionality are incorporated into ongoing training materials and staff are trained by our contract training partner, the Eastern Kentucky University.*

**FINANCIAL STATEMENT FINDINGS*****Material Weaknesses Relating to Internal Controls and/or Noncompliances*****FINDING 2016-001: The Cabinet For Health And Family Services Did Not Ensure The Benefind Application Was Completely Functional And The Staff Were Sufficiently Trained Prior To Implementation (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*DCBS' responsibility to ensure proper case record maintenance is detailed in the Division of Family Support Operations Manual, Volume I, General Administration, Manual Section 0030, Case Record. Additionally, the integrity of the Case Record is covered in staff training. The Case Review Process used statewide is helpful in identifying and resolving inefficiencies in relation to DCBS case record maintenance.*

*Regarding the exceptions related to case file integrity that were identified in the audit, it is unclear exactly which program areas were reviewed by the Auditor's Office. It is possible that the files reviewed and exceptions noted were MAGI Medicaid. Because the MAGI Medicaid uses the Federal Data Services Hub as its primary source of verification, and uses other online sources as secondary verification sources, physical documentation of such information may not be present. Federal standards allow that verification from the hub or an online source to be an indication in Worker Portal that this check was completed successfully, and returned electronically. In addition, telephonic applications are permitted by federal and state regulations, and a wave sound file is created to capture the applicants' verbal signature; those instances would not have a signed application.*

*Experiences learned from Release 5 implementation can be transferred to other projects, particularly as relates to response and contingency planning. The problems encountered by this administration during implementation of Release 5 are a product of unacceptable planning decisions, poor design, and ineffective testing. Cabinet leadership will ensure that appropriate staff are heard and will implement measures to insure the integrity of UAT and pilot testing. The Cabinet also recognizes that inadequate contingency planning is a path to a catastrophic outcome and will ensure that appropriate contingency plans are designed and incorporated into future projects. The current administration firmly believes that it exercised all appropriate due diligence and could not have anticipated the significant problems encountered based on review of test materials, representations from [Vendor Name Redacted], discussions with senior management from the prior administration, and information obtained from our federal partners. This administration will ensure that it engages in appropriate and effective collaboration with its partners, vendors, and program staff, will hold its staff and vendors accountable to serve as stewards of the public trust as relates to projects and initiatives impacting the health and welfare of the public and clients we serve.*



## **FINANCIAL STATEMENT FINDINGS**

### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-002: The Department Of Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of The Closing Package**

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The Department of Workforce Investment (DWI) failed to implement adequate internal controls over the preparation and subsequent review and monitoring of its closing package as submitted to the Finance Administration Cabinet (FAC) for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). Review of DWI's Unemployment Insurance closing package identified the following errors:

- The Unemployment Insurance tax closing package reported \$135,060,372 in accounts receivable and \$9,457,117 as an allowance for uncollectible accounts as of June 30, 2016. Review of supporting documentation revealed incorrect amounts were pulled from the supporting detail resulting in an increase in the reported accounts receivable of \$17,578,887 and an increase in the allowance for uncollectible accounts in the amount of \$7,641,014.
- The Unemployment Insurance benefits closing package reported \$1,431,418 as allowance for uncollectible accounts; however, an identified typographical error on supporting documentation led to an error in the calculation of the percentage written off annually. This resulted in an overstatement of \$237,761 of the allowance for uncollectible accounts balance on the closing package.
- The Unemployment Insurance tax closing package reported \$24,827,887 in accounts payable as of June 30, 2016. Review of supporting documentation revealed this amount was incorrect resulting in an increase of accounts payable of \$2,780,600.
- The Unemployment Insurance tax closing package reported \$2,780,600 as both an estimated amount of receipts to be refunded and as accounts payable. Discussions with FAC identified this amount would be ultimately treated as accounts payable. The double accounting for this activity resulted in an overstatement of \$2,780,600 in accounts receivable on the originally submitted closing package.

DWI subsequently submitted a revised closing package to FAC making necessary adjustments. This condition was reported in prior year finding 2015-015 within the Statewide Single Audit of Kentucky (SSWAK) Volume I.

The Commonwealth's accounting system, eMARS, is a cash basis system. At the conclusion of each fiscal year, DWI is required to prepare a closing package in order to assist in converting its financial statements for the Unemployment Compensation Fund into the full accrual basis of accounting. This is a manual process prone to errors and miscalculations. Additionally, DWI had multiple experienced personnel leave prior to completion of its closing package. Implemented instructions, policies, and procedures over the preparation and review of the closing package were not adequate to ensure it was complete and accurate.

Failure to ensure the closing package is complete and accurate could lead to incorrect financial reporting, including material misstatements. Had the errors noted been undetected, accounts receivable would have been understated by \$12,956,234 and accounts payable would have been understated by \$2,780,600.

## **FINANCIAL STATEMENT FINDINGS**

### ***Material Weaknesses Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-002: The Department Of Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of The Closing Package (Continued)**

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FAC's Office of Statewide Accounting Services provides state agencies with forms and instructions to assist in preparing necessary information required for financial statement reporting. Provided closing package instructions state:

The solicitation of the information contained in this package is for the purpose of preparing the Commonwealth's Comprehensive Annual Financial Report (CAFR) in compliance with Generally Accepted Accounting Principles (GAAP) as mandated by the General Assembly. The information submitted by the various departments, in conformity with the instructions contained herein, will enable the Finance and Administration Cabinet to determine assets, liabilities, and fund balances of its various funds as of June 30, 2016.

The FAC closing package instructions provide further guidance on all information required to be reported on, including accounts receivable, allowance for uncollectible accounts, refunds of receipts, accounts payable, cash on hand, etc.

Sound internal controls dictate that adequate policies and procedures be implemented over the preparation and subsequent review of financial information to ensure it is complete, accurate, and based on sound methodology. While FAC does provide some guidance to assist agencies of the Commonwealth, it is ultimately the responsibility of each agency to ensure it has a thorough understanding of its operations when preparing information impacting financial reporting.

#### **Recommendation**

We recommend DWI strengthen internal controls over the closing package preparation, which includes agreeing supporting documentation to the amounts reported and ensuring the methodology for calculating receivable and estimates is reasonable. Any internal controls as well as the methodology for calculations should be documented in DWI's policies and procedures for preparing the closing package. Additionally, DWI should consult with FAC in unfamiliar areas to receive guidance and assistance to ensure the accuracy of reported information.

#### **Management's Response and Planned Corrective Action**

*The first bulleted tax closing package finding was caused by pulling information from the wrong column on the supporting documentation. DWI will screen shot and update the existing procedures to eliminate any future confusion.*

**FINANCIAL STATEMENT FINDINGS*****Material Weaknesses Relating to Internal Controls and/or Noncompliances***

**FINDING 2016-002: The Department Of Workforce Investment Failed To Implement Adequate Internal Controls Over The Preparation And Subsequent Review And Monitoring Of The Closing Package (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*The other two tax findings are due to reporting the tax estimated amount of receipts to be refunded (\$2,780,600) as both an amount to be refunded and as an account payable. The Finance and Administration Cabinet determined this amount should be reported as an account payable. DWI will clearly delineate the proper reporting in its existing procedure.*

*The benefits allowance for uncollectible typo was human error. It was overlooked at multiple levels of review. DWI is committed to diligent and thorough review of its closing package, and will continue to make every effort to avoid similar oversights.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-003: The Cabinet For Health And Family Services Did Not Have Sufficient Documentation At The Time Documents Were Created And Approved**

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During the FY 2016 audit of the Cabinet for Health and Family Services, tests were conducted on journal voucher transactions. Journal vouchers are used to adjust account balances, for making corrections to other transactions, or for transferring monies between funds. The results of testing identified 32 journal vouchers that were processed without adequate documentation to support the amounts transferred.

Exceptions were noted in the following departments:

Department of Community Based Services (DCBS)

- Twenty exceptions were noted for journal vouchers that were used to transfer allotted amounts from the general fund to the restricted fund for the purpose of ensuring that adequate monies were available. The transfer was made for payments that the budget analysts identified as “unlikely to post,” given the low available amount prior to transfer. While the reason for transferring the amounts was viable, it was determined that these transfers were made for amounts that were not traceable to posted transactions. Upon further inquiry, these amounts were arbitrary and in fact could not be agreed to the payments for which they were made. Supporting documentation that was provided by DCBS further demonstrated that the journal vouchers were made for amounts that varied, as the supporting documentation that was provided was often a screen shot of a pending payment and a payment amount. The payment amount was often millions of dollars less than the journal voucher amount. In other cases, the documentation that was provided as support for the transfer was a screen shot of the budget, which only demonstrated that monies were available for transfer.

It should also be noted that due to the manner in which these journal vouchers were created, two separate journal vouchers were found with the purpose of correcting the aforementioned journal vouchers because they were entered into eMARS with incorrect function and sub function codes. The first journal voucher was to make a \$27,000,000 correction, and the second was created to correct \$18,690,000.

- One exception was noted for a journal voucher that did not have sufficient supporting documentation. When additional supporting documentation was requested, personnel offered that the journal voucher was made based on a request from the Governor’s Office for Policy and Management (GOPM) and amounts were verified through a phone conversation, but were not recorded or verified by DCBS staff prior to the creation and approval of the journal voucher.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-003: The Cabinet For Health And Family Services Did Not Have Sufficient Documentation At The Time Documents Were Created And Approved (Continued)**

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##### Department of Medicaid Services (DMS)

- Nine exceptions were noted for journal vouchers that were used to transfer amounts from the Med Assessment Revolving Trust Fund (14CT) to the Medicaid Benefits Fund (1392) for the purpose of ensuring that adequate monies were available. As with DCBS, the reason for transferring the amounts was viable; however, these transfers were made for amounts that were not traceable to supporting documentation. The supporting documentation was not available for the amounts that were transferred, and the amounts transferred were estimates based on DMS personnel's judgment for suspected amounts and for future transactions that would necessitate a payment.

##### Department of Public Health (DPH)

- One exception was noted for a journal voucher that was made for "additional staff office deduction," an annual expense to DPH that did not have adequate supporting documentation. The amount of the transaction could not be verified.

##### Department for Behavioral Health, Developmental and Intellectual Disabilities (DBHDID)

- One exception was noted for a journal voucher that was made for a "short fall in Medicaid." The amount of the journal voucher could not be verified because the amount was determined by the Secretary's Office, and the only supporting documentation was an email correspondence requesting the amount to be transferred.

Journal vouchers utilized to transfer funds did not have adequate supporting documentation so that transferred amounts could be verified in full. Proper rationale for transfer amounts was also deficient, and amounts were transferred based on the request of individuals whose purpose for transfer and authority is unknown.

When adequate supporting documentation is not provided so that amounts can be verified, the agency runs the risk of exceeding the budgeted allotment for certain funds or creating material financial misstatements by coding the journal vouchers incorrectly. Creating journal vouchers that are not properly supported by adequate rationale, e.g., journal vouchers that were created based on the request of individuals or other agencies, could increase the risk of errors, omissions, and fraud.

Good internal control dictates that adequate documentation be provided for all journal entries. The documentation provided should support the amount of the journal entry and provide adequate rationale for the entry. Supporting documentation should be reviewed for accuracy and mathematical correctness prior to the final approval of the journal entry.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-003: The Cabinet For Health And Family Services Did Not Have Sufficient Documentation At The Time Documents Were Created And Approved (Continued)**

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##### **Recommendation**

We recommend CHFS implement policies and procedures that ensure there is adequate documentation to support the rationale and amount of journal vouchers. Adequate documentation varies based upon the circumstance of the journal voucher. We consider adequate documentation as follows:

- Journal vouchers that are utilized to transfer allotted monies between funds should be supported by the budget detail from which they are derived and where it was transferred. This transfer should also be supported by some rationale or reason for the transfer. If the reason for transfer was made for the purpose of providing monies for other known transactions, the amount of the journal voucher should agree to the transactions. In the event that the amount to be transferred is an estimate, some explanation and conclusions should be provided as to how the amounts to be transferred were determined.
- Journal vouchers utilized to transfer funds based on the request of other individuals or agencies should be supported by an email or memo detailing the purpose and amount of the transaction. Further, the documentation should be something that is easily scrutinized for accuracy and correctness by the personnel to which the request was sent. If the transfer is for questionable amounts that are determined to be unverifiable, the transfer should not be completed. Furthermore, we do not recognize an email alone as adequate supporting documentation.

Finally, consideration of the aforementioned policies and procedures will assist in the elimination of errors, omissions, and fraud that can be potentially found in journal vouchers.

##### **Management's Response and Planned Corrective Action**

*Department for Behavioral Health, Developmental and Intellectual Disabilities (DBHDID)*

*Staff in the Department for Behavioral Health, Developmental and Intellectual Disabilities (DBHDID) was notified by the Secretary's Office in November of 2015 that a journal voucher to transfer agency funds to the Department of Medicaid Services (DMS) in the amount of \$10,012,100 should be prepared to address a shortfall in the DMS budget. House Bill 235 as Enacted and Vetoed, from the 2014 Regular Session gave the Secretary of the Cabinet the authority to reallocate General Fund and Restricted Funds with approval from the Office of the State Budget Director. The language provision states: "Reallocation of Appropriations Among Budget Units: The Secretary of the Cabinet for Health and Family Services shall operate the Cabinet within the appropriations for the Cabinet authorized in this Act. The Secretary may request a revision or reallocation among the departments and offices of the Cabinet up to ten percent of the General Fund or Restricted Funds appropriations contained in Part I, Operating Budget, of this Act for fiscal years 2014-2015 and 2015-2016 for approval by the State Budget*

## FINANCIAL STATEMENT FINDINGS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-003: The Cabinet For Health And Family Services Did Not Have Sufficient Documentation At The Time Documents Were Created And Approved (Continued)**

##### **Management's Response and Planned Corrective Action (Continued)**

*Department for Behavioral Health, Developmental and Intellectual Disabilities (DBHDID) (Continued)*

*Director. No request shall relate to moneys in a fiduciary fund account. A request shall explain the need and use for the transfer authority under this subsection.*

*We understand that the Office of the State Budget Director reviewed the plan to address the DMS shortfall; however, DBHDID staff was not part of that process and we do not have written documentation of the detail behind the full plan. We were only notified of the impact to DBHDID. An analysis was completed to ensure that DBHDID had sufficient funding to meet its operating requirements before the journal voucher was being initiated. The Office of the State Budget Director through e-mail approved the journal voucher to transfer the cash approved.*

*As a corrective action plan, the Department will request written notification of any similar requests, as well as documentation as to how the amount is calculated. Documentation will be attached to the journal voucher in eMARS and maintained for audit purposes. Notification of the required documentation was made by the Assistant Director with the Division of Accounting and Procurement Services, on October 21, 2016 to Cabinet fiscal officers and was forwarded to DBHDID Financial Branch staff on the same day. We will continue to enforce the new policy.*

*The JV2T for the additional Staff Deductions was prepared at the request of the Office of Policy and Budget (OPB) and the Governor's Office. The back attached to the JV was the only documentation provided along with a personal meeting from OPB staff and upper management. It is now policy that all requests are made with proper documentation. As a corrective action plan, we will request written notification of any similar requests, as well as documentation as to how the amount is calculated. Documentation will be attached to the journal voucher in eMARS and maintained for audit purposes. Notification of the required documentation was made by the Assistant Director with the Division of Accounting and Procurement Services, on October 21, 2016 to Cabinet fiscal officers. We will continue to enforce the new policy.*

*Department for Community Based Services (DCBS)*

*Check Writer payments from TWIST for Foster and Adoption benefits are variable amounts each week and amounts are unknown until they post. TWIST payments are approximately \$25 million per month. A sizeable amount of those payments post to General fund (0100) of which our General fund allotments are usually not sufficient to cover our TWIST payments. DCBS utilizes Journal Vouchers to move valid expenditures from General to Restricted/Agency funds (138Z) for both object type 4 (TWIST) and object type 1 (Personnel) expenditures. DCBS receives Restricted/Agency revenue via a Title V contract with Medicaid. DCBS's ability to move funds is dictated by our cash balance in 138Z on any given day. Without making these Journal Vouchers, DCBS could not make timely benefit payments to some of Kentucky's most vulnerable citizens.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-003: The Cabinet For Health And Family Services Did Not Have Sufficient Documentation At The Time Documents Were Created And Approved (Continued)**

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**Management's Response and Planned Corrective Action (Continued)***Department for Community Based Services (DCBS) (Continued)*

*Given the fact that these transaction amounts are unknown and given the fact that multiple funding streams are involved with each TWIST Check Writer, it would be virtually impossible to process the Journal Voucher for an exact dollar amount. While it may seem that DCBS processes Journal Vouchers arbitrarily, much thought does go into deciding the dollar amount of the Journal Voucher. Because DCBS is unsure of the dollar amount of these TWIST payments and payroll payments and other operating payments, we try to be proactive and create a Journal Voucher that will allow all payments to post on any given day in any given week. Essentially we create Journal Vouchers on an as needed basis. If we had to create them for an exact dollar amount we could potentially be creating Journal Vouchers daily which would be extremely cumbersome and labor intensive.*

*DCBS acknowledges that adequate documentation to support the amounts transferred in some instances were not attached to the Journal Voucher. Only computer screen shots of the Check Writer error were attached and not details of the actual transaction. DCBS has already started to attach proper support documentation on each Journal Voucher submitted to Accounting in CHFS. DCBS had no control over the Journal Voucher that was requested by the Secretary's Office in CHFS and DCBS staff simply followed the instructions received via email.*

*To prevent future findings regarding inadequate support documentation, DCBS will attach proper transaction support documentation with each Journal Voucher and in addition will highlight the transactions that make up the total dollars of the Journal Voucher so it will be clear which transactions are included in the Journal Voucher.*

*Department for Medicaid Services*

*The Department for Medicaid Services (DMS) agrees that it is a viable process to transfer funds from the Med Assessment Revolving Trust Fund (14CT) to the Medicaid Benefits Fund (1392) to ensure that adequate monies are available for claims processing. Since the amount of future claims cycles are unknown, historical claims data along with any known cycle expenses are considered when estimating the amount to transfer. Based on the successful use of this method in the past, it is DMS's position that this method is the most reasonable for determining needed funds. Therefore, DMS disagrees with the statement "DMS Personnel's judgment" as there is a methodology used in calculating the estimate. However, DMS agrees to provide documentation to support the estimated calculation when requesting future transfers of funds between 14CT and 1392.*



**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-004: The Cabinet For Health And Family Services Made Errors In Calculating Accounts Receivable And Used Unverified Data As The Basis For Their Calculation**

This is a repeat finding. The original finding, 2015-004, was included in Volume I of the fiscal year 2015 SSWAK report. As part of the audit of the Cabinet for Family and Health Services (CHFS) for fiscal year 2016, accounts receivable estimates and the processes used to create them were reviewed to determine if they were accurately calculated, could be repeated with available information, and produced accurate estimates of future transactions. CHFS uses data from prior fiscal years to estimate amounts reported for accounts payable and accounts receivable when actual amounts are not known.

Results of testing noted the following errors:

1. There was an error made in calculating the estimated amount receivable due to overpayments in the Supplemental Nutrition Assistance Program (SNAP). CHFS mistakenly reported the total receivable amount when they should have reported the portion of this amount that was expected to be collected in cash rather than through reductions in assistance. This resulted in an overstatement of accounts receivable by \$13,370,506. An adjustment to the receivable amount was recommended.

The SNAP accounts receivable amount was recorded as a receivable to the agency fund. The auditor noted that actual repayments deposited to eMARS were split between the federal fund and the agency fund during the 2016 fiscal year. We have also recommended an adjustment to move the federal fund portion of the receivable amount to the federal fund.

The SNAP receivable estimate was calculated based on the amount reported as receivable at June 30, 2016 in the FNS-209, Status of Claims Against Households, report. As noted in finding 2016-005, the FNS-209 cannot be agreed to supporting schedules or reports from the collections system. Following the conversion of the collections process to worker portal in Benefind, during March 2016, the FNS-209 report could not be accurately created by CHFS staff using the worker portal. Errors in the FNS-209 were identified by CHFS staff and have not been corrected as of November 23, 2016.

According to CHFS, the June 30, 2016 FNS-209 report was actually created by a vendor and there were no supporting schedules or data provided as support for the outstanding collection amounts contained in the report. Therefore, we are unable to reconcile the \$20,461,577 reported as SNAP receivables to supporting collection account records. However, the amount as recorded is comparable to amounts reported in previous years.

2. There was also an error made in the estimation of the uncollectible amount for the SNAP overpayment receivable. The amount reported by CHFS represented the amount known to be written off during one quarter of fiscal year 2016. This amount should have been multiplied by four to properly estimate the expected uncollectible amount for the year following CHFS methodology for this calculation. This step was omitted and the resulting understatement of the uncollectible amount was \$155,921. This has been included with the recommended audit adjustment.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-004: The Cabinet For Health And Family Services Made Errors In Calculating Accounts Receivable And Used Unverified Data As The Basis For Their Calculation (Continued)**

3. Calendar year 2015 receivable data was used to estimate the fiscal year 2016 amount receivable from Temporary Assistance to Needy Families (TANF) overpayments. As noted above for the SNAP program, when the collection system was transitioned to worker portal with the implementation of Benefind, CHFS was not able to produce accounts receivable reports that could be verified. While the estimated amount is comparable to the amount calculated in the prior year, it is not based on the most current time period and any significant changes in overpayments or collections that may have occurred would not be included.

The implementation of Benefind resulted in significant changes to the sources of data that is relied upon in the financial reporting process to determine amounts that are receivable to the state at the end of the fiscal year. The data sources for the SNAP and TANF receivable amounts could not be tested or verified back to the collections system to determine its accuracy.

Processes for determining estimated amounts receivable were not adequately documented or the results adequately reviewed for accuracy. A simple comparison with the prior year would have indicated a significant variance that should be explained or verified.

When estimation processes are not written or the resulting data is not properly reassessed, estimates are generated that cannot be easily reproduced; it creates the risk that the estimates generated do not accurately reflect actual expectations, and CHFS risks overstating or understating those accounts.

Good internal control dictates that CHFS management establish processes for calculating accounting estimates for accounts receivable and accounts payable that:

- Identify all factors that impact the estimate including changes in the operation of federal programs;
- Accumulate data that is relevant, sufficient, and reliable for the basis of the estimate.

Further the establishment of processes for calculating estimates should include the review and approval of accounting estimates at the appropriate levels of authority, which includes:

- Review of the sources of the data accumulated for the estimates;
- Review of the assumptions related to the estimates;
- Review of the reasonableness of the assumptions and the estimates made;
- Consideration for the use of specialists if needed;
- Consideration for when changes need to be made to previously established methods for establishing estimates.

Finally, good internal control over the closing package forms and year-end reporting activities dictates that adequate review procedures be created and followed to ensure that the closing package submitted to FAC contains reliable, verifiable and accurate data. In addition, proper internal controls dictate that all supporting financial data be reconciled and reported timely.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-004: The Cabinet For Health and Family Services Made Errors In Calculating Accounts Receivable And Used Unverified Data As The Basis For Their Calculation (Continued)**

##### **Recommendation**

We recommend CHFS:

- Develop reliable and verifiable accounting estimates that are supported by appropriate data that is able to be reconciled and replicated for accuracy;
- Implement policies and procedures to ensure that estimates used for financial reporting are adequately reviewed to ensure accuracy of financial reporting. This should include consideration of actual receipts related to these types of receivable accounts and the aging schedule of the receivable accounts. Where estimates are found to be inaccurate, adjustments should be made to their estimation processes to ensure that amounts reported accurately reflect actual expectations based on relevant conditions impacting financial information;
- Review its procedures for compiling and reporting the agency financial activity related to preparation of the closing package to ensure a consistent method for reporting all financial activity. In addition, considerations should be made to ensure an adequate and thorough review of the closing package information prior to submission to FAC.
- Continue efforts to provide accurate reporting of accounts receivable for SNAP and TANF from the worker portal. Once the reporting process has been verified, the current processes for estimating the receivable amounts should be reviewed and compared to actual receipts and aging schedules to ensure that amounts reported as receivable are reasonable based on actual collection patterns.

The goal should be to ensure complete and accurate information is presented in the state's financial statements.

##### **Management's Response and Planned Corrective Action**

*DCBS is responding as requested to the below excerpt from result:*

*The SNAP receivable estimate was calculated based on the amount reported as receivable at June 30, 2016 in the FNS-209 report. As noted in finding 2016-005, the FNS-209 cannot be agreed to supporting schedules or reports from the collections system. Following the conversion of the collections process to worker portal in Benefind, during March 2016, the FNS-209 report could not be accurately created by CHFS staff using the worker portal. Errors in the FNS-209 were identified by CHFS staff and have not been corrected as of 11/23/2016.*

*The June 30, 2016 FNS-209 report was actually created by CHFS' vendor, [Vendor Name Redacted], and there were no supporting schedules or data provided as support for the outstanding collection amounts contained in the report. Therefore, we are unable to reconcile the \$20,461,577.18 reported as SNAP receivables to supporting collection account records. However, the amount as recorded is comparable to amounts reported in previous years.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-004: The Cabinet For Health and Family Services Made Errors In Calculating Accounts Receivable And Used Unverified Data As The Basis For Their Calculation (Continued)****Management's Response and Planned Corrective Action (Continued)***DCBS Response:*

*The issues with the March and June FNS-209 reports have been corrected and the supporting schedules and data are available for reconciliation. The FNS-209 and the backup reports are now available through Worker Portal for CHFS staff.*

*DGA is responding as requested to the paragraphs that follow:*

*There was an error made in calculating the estimated amount receivable due to overpayments in the Supplemental Nutrition Assistance Program (SNAP). CHFS mistakenly reported the total receivable amount when they should have reported the portion of this amount that was expected to be collected in cash rather than through reductions in assistance. This resulted in an overstatement of Accounts Receivable by \$13,370,506. An adjustment to the receivable amount was recommended.*

*DGA is in agreement with the finding listed above and will update its workbook to pull in the collected cash amount instead of total receivable. This finding was corrected before the CAFR report was completed and therefore had no effect on the Commonwealth's financial statements.*

*The SNAP receivable amount was recorded as a receivable to the agency fund (1300). The auditor noted that actual repayments deposited to eMARS were split between the federal fund (1200) and the agency fund (1300) during the 2016 fiscal year. We have also recommended an adjustment to move the federal fund portion of the receivable amount to fund 1200.*

*DGA is in agreement with the finding listed above and will update its workbook to split the receivable amount between funds. This finding was corrected before the CAFR report was completed and therefore had no effect on the Commonwealth's financial statements.*

*There was also an error made in the estimation of the uncollectible amount for the SNAP overpayment receivable. The amount reported by CHFS represented the amount known to be written off during one quarter of fiscal year 2016. This amount should have been multiplied by four to properly estimate the expected uncollectible amount for the year following CHFS methodology for this calculation. This step was omitted and the resulting understatement of the uncollectible amount was \$155,921. This has been included with the recommended audit adjustment.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-004: The Cabinet For Health and Family Services Made Errors In Calculating Accounts Receivable And Used Unverified Data As The Basis For Their Calculation (Continued)****Management's Response and Planned Corrective Action (Continued)**

*DGA does not agree with the finding above regarding uncollectible amounts. Each quarter end, the FNS-209 report is a standalone balance at a point in time. To annualize the uncollectible amount would also require us to incorporate that same methodology with cash receipts. It is DGA's stance that the amounts listed on the FNS-209 are static for the quarter ended June 30<sup>th</sup> 2016. Only \$51,973 should be reflected.*

*The annualized method for the uncollectible amount appears wrong because the APA calculation of the cash receivable amount takes only the total receivables of 34,182,797.09 multiplied by the percentage of cash receipts. This gives the receivable amount for SNAP SFY 2016. It appears unreasonable that the APA would recommend multiplying the uncollectible amount by 4.*

*DGA will strive to bring a better method / approach to calculating the uncollectible amounts for receivables in the future for AFR 30 and 32 reports.*

*Calendar year 2015 receivable data was used to estimate the fiscal year 2016 amount receivable from Temporary Assistance to Needy Families (TANF) overpayments. As noted above for the SNAP program, when the collection system was transitioned to worker portal with the implementation of Benefind, CHFS was not able to produce accounts receivable reports that could be verified. While the estimated amount is comparable to the amount calculated in the prior year, it is not based on the most current time period and any significant changes in overpayments or collections that may have occurred would not be included.*

*DGA is in agreement with the finding listed above and will update its method to calculate the receivable amount based on the new data in the Benefind system. DGA will work with DCBS to verify amounts back to the worker portal for Closing Package SFY 2017.*

**Auditor's Reply**

As it relates to the cabinet's disagreement with the suggested process for determining the estimated SNAP uncollectible amount, we believe the estimating process used by the auditor is reasonable. The FNS-209 reports changes in the amounts due from households in Kentucky. Each quarterly report includes an amount determined to be uncollectible during that quarter only, which is used in calculating the balance due from households at the end of the quarter. It would be unreasonable to base the expected uncollectible amount for the total receivable amount on just one quarter, therefore the recommended adjustment included an estimation of the amount that could reasonably be expected to be written off during a full year by multiplying the quarterly amount by four. DGA is encouraged to carefully review the FNS-209 and the instructions as they consider changes to their closeout processes.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-005: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence**

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The Cabinet for Health and Family Services (CHFS) is required to submit the FNS-209, Status Claims Against Households, within 30 days of the end of each quarter. This report summarizes those Supplemental Nutrition Assistance Program (SNAP) cases where an overpayment has occurred and payments or benefit reductions applied.

When CHFS implemented the Benefind Enrollment and Eligibility system on February 29, 2016, the overpayment collections records were converted from the Kentucky Claims Debt Management System (KCD) to the Worker Portal (WP). The new reporting function designed for WP did not operate correctly and CHFS personnel were not able to produce the reports for the quarters ending March 31, 2016 and June 30, 2016. Ultimately, CHFS indicated an outside vendor generated the report data and created the FNS-209 reports for March 31, 2016 and June 30, 2016. These reports were generated directly from the data tables within Benefind and none of the required documentation necessary to reconcile or verify the report was generated. CHFS employees did not have the access or expertise necessary to perform this task.

Test results noted that the March 31, 2016 report was submitted more than two months late, and the report for the quarter ended June 30, 2016 was submitted two days late. There was no documentation of CHFS supervisory review of the reports submitted.

The software developer, which was a vendor of CHFS, had included the FNS-209 reporting function in the design of the Benefind system, but it did not operate with the correct formatting. Also, the subcontractor that actually wrote the program did not include the functions necessary to create the supporting records required to reconcile and verify the report (7 CFR section 273.18(m)).

The FNS-209 quarterly reports should agree to and be reconciled against supporting records. Without these functions operating effectively in the WP software, auditors were not able to verify that the FNS-209 reports as submitted to the federal government were accurate. There is a risk that the amounts reported to the United States Department of Agriculture in this report could contain inaccuracies. Further, these reports could not be verified to support accounts receivable amounts due to Kentucky's federal and agency funds at the end of the 2016 fiscal year. CHFS has reported that \$34,182,797 was receivable based on the unsubstantiated FNS-209. A financial statement adjustment was proposed and made that reduced this amount.

Proper internal controls over financial reporting dictate that all financial data is able to be reconciled and agreed to the underlying records. Additionally, internal controls are necessary to ensure compliance with laws and regulations related to applicable federal programs.

7 CFR section 273.18(m) states:

- (1) As a State agency, you must maintain an accounting system for monitoring recipient claims against households. This accounting system shall consist of both the system of records maintained for individual debtors and the accounts receivable summary data maintained for these debts.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-005: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence (Continued)**

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(2) At a minimum, the accounting system must document the following for each claim:

- (i) The date of discovery;
- (ii) The reason for the claim;
- (iii) The calculation of the claim;
- (iv) The date you established the claim;
- (v) The methods used to collect the claim;
- (vi) The amount and incidence of any claim processing charges;
- (vii) The reason for the final disposition of the claim;
- (viii) Any collections made on the claim;
- (ix) Any correspondence, including follow-up letters, sent to the household.

(3) At a minimum, your accounting or certification system must also identify the following for each claim:

- (i) Those households whose claims have become delinquent;
- (ii) Those situations in which an amount not yet restored to a household can be used to offset a claim owed by the household; and
- (iii) Those households with outstanding claims that are applying for benefits.

(4) When requested and at intervals determined by us, your accounting system must also produce:

- (i) Accurate and supported outstanding balances and collections for established claims; and
- (ii) Summary reports of the funds collected, the amount submitted to FNS, the claims established and terminated, any delinquent claims processing charges, the uncollected balance and the delinquency of the unpaid debt.

(5) On a quarterly basis, unless otherwise directed by us, your accounting system must reconcile summary balances reported to individual supporting records.

The FNS-209 Narrative states:

- (11) To detail activities related to these claims, the State submits a quarterly FNS-209 (Status of Claims Against Households) to the USDA Food and Program Reporting System (FPRS), a federal web based program monitored by FNS. *This report is due 30 days after the end of each quarter.* Staff at DCBS' NAB CMS monitors when the reports are due to ensure timely submission. The Beginning Balance of Claims by type on line 3a of the FNS-209 report shows all established claims for which a payment has been made or activity has occurred within the last 10 years. All monthly and quarterly reports for collections were generated from the KCD system, but as of 2/29/16 are generated by the reports module on WP and consist of county and statewide totals.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-005: The Cabinet For Health And Family Services Submitted A Federal Report That Could Not Be Reconciled To Supporting Evidence (Continued)**

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According to the FNS-209 instructions:

This report shall cover the State's activities relating to recipient claims during the report quarter and the status of claims from previous reports. Submission to the Food and Nutrition Service (FNS) of a consolidated State level report is required. Each State Agency (SA) shall prepare an original and two copies. The original and one copy shall be submitted to the FNS Regional office so that it will be received in that office by the 30th day following the end of the report quarter. State agencies shall retain the second copy for audit purposes. The report must be submitted even if no payments are collected during the quarter.

#### **Recommendation**

We recommend CHFS:

- Ensure procedures reflect that the FNS-209 is due 30 days after the quarter end.
- Ensure procedures include a requirement for federal reports including the FNS-209 are reviewed by a knowledgeable supervisor before submission.
- Ensure the reporting functions necessary to adequately support and reconcile the report are created within WP. These should include: supporting reports by individual claims; Intentional Program Violation (IPV), Inadvertent Household Error (IHE), and State Agency Administrative Error (AE).
- Ensure the supporting documents necessary to reconcile the FNS-209 report can be generated and allow the user to reconcile the report to actual collections accounts. Documentation of this reconciliation should be performed and documented to support each report prior to submission.

Once both reporting functions are operational, reports for all previously submitted FNS-209 reports should be generated and reconciled to the reports submitted. If necessary, corrections should be submitted for any errors found in the previously submitted reports.

#### **Management's Response and Planned Corrective Action**

*The Nutrition Assistance Branch's Claims Management Section (CMS) is tasked with preparing and submitting the FNS-209. CMS has procedures in place for timely preparation and submission of the FNS-209. CMS staff generates the supporting documents necessary and prepares the FNS-209 15 days prior to the due date to allow for review and approval by management prior to submission.*

*The reporting functions necessary to support and reconcile the FNS-209 are operational. All previously submitted FNS-209s have been reconciled.*



## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-006: The Cabinet For Health And Family Services Paid Duplicate Benefits To SNAP And TANF Recipients**

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The Cabinet for Health and Family Services (CHFS) implemented a new enrollment and eligibility system, Benefind that was placed into operation on February 29, 2016. Benefind was designed to be an integrated eligibility system housing all federal programs, with the overall objective of providing one stop shopping for applying for Medicaid, KCHIP, SNAP and TANF eligibility programs. It is designed to allow for renewal of benefits, checking benefit amounts, reporting changes in status, uploading verification documents, checking claim status, making claims payments, and receiving electronic notices. It was designed to allow for identifying all programs that an applicant had applied for and was eligible to receive.

Because of concerns about possible duplicate Electronic Benefit Transfer (EBT) accounts relating to payment of SNAP benefits being generated following the implementation of Benefind, a report of multiple Electronic Benefit Transfer (EBT) accounts that had repeating social security numbers and audit tests were designed to review the related cases for duplicated benefits.

The report identified 141 social security numbers that had multiple EBT accounts. Twenty individual cases were tested and the results found five cases had received duplicated benefits, three cases within the SNAP program, and two cases had received duplicated Kinship Care benefits deposited on EBT accounts. An additional duplicate benefit payment was noted during other test procedures with three months of duplicated Kinship Care Benefits.

The duplicated SNAP benefits identified resulted in the improper payment of benefits totaling \$2,109; \$234; \$1,542; and \$333. The duplicated Kinship Care benefits resulted in improper benefit payments of \$1,810; \$910; and \$900. The third Kinship Care duplicate benefits were deposited to the individual's personal bank account resulting in a \$900 improper benefit payment. The duplicate benefit disbursements occurred between February 2016 and June 2016 (test parameters were January 1, 2016 through June 30, 2016). While there is not a significant relationship between the SNAP cases, it appears two Kinship Care cases duplicated benefits for April, May, and June. The third Kinship Care benefit that was deposited to the individual's bank account was an error that occurred during recertification where the Benefind system discontinued a prior Eligibility Determination Group (EDG) and improperly paid benefits on the second EDG.

The exact cause of the duplicated benefits was not known at the completion of audit testing. Based on the timing of the errors, it appears that the generation of multiple accounts on the EBT provider's network and duplication of benefit payments is due to a software error in the launch of Benefind on February 29, 2016.

CHFS received the EBT report from an outside vendor in May 2016 detailing multiple EBT accounts with duplicated social security numbers, which should have triggered further examination into each of the 141 accounts. There was no indication that this report had been reviewed by the agency or that any investigation into the duplicate EBT accounts had occurred.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-006: The Cabinet For Health And Family Services Paid Duplicate Benefits To SNAP And TANF Recipients (Continued)**

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For the sample tested, six cases of duplicated benefits (SNAP and Kinship Care) were identified with a total of \$4,819 of improperly paid benefits issued. Failure to analyze the 141 accounts in question has resulted in uncertainty in the direct cause of overpayment and as to whether any benefits are still being duplicated.

The overpayment in question was the result of agency error as outlined in the Division of Family Support Operation Manual Volume 1 OMTL-504 MS 1000:

A claim (error) occurs when a household receives benefits to which it is not eligible or traffics SNAP benefits. Refer to Volume I, MS 1020, for information on trafficking. There are three categories of SNAP benefits claims:

- A. Agency Error (AE) – occurs when the claim is caused by a worker’s action or failure to take action which includes:
  - 1. Failure to take prompt action on a client reported change;
  - 2. Incorrectly computing income and deductions;
  - 3. Failure to take prompt action on a change known to the agency.

Further, the lack of internal control has caused the agency to be out of compliance with the Improper Payments Elimination and Recovery Act (IPERA). The agency inadvertently made improper payments under OMB guidance, Public Law (Pub. L.) No. 107-300, the Improper Payments Information Act of 2002, as amended by Pub. L. No. 111-204, the Improper Payments Elimination and Recovery Act, Executive Order 13520 on reducing improper payments, and the June 18, 2010 Presidential memorandum to enhance payment accuracy, whereby federal agencies are required to take actions to prevent improper payments, review federal awards for such payments, and, as applicable, reclaim improper payments.

Improper payments include the following:

- 1. Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements, such as overpayments or underpayments made to eligible recipients resulting from inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments.
- 2. Any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments where authorized by statute).
- 3. Any payment that an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-006: The Cabinet For Health And Family Services Paid Duplicate Benefits To SNAP And TANF Recipients (Continued)**

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The agency is responsible for the timely and accurate issuance of benefits as outlined in 7 CFR 274.2(a):

- (a) General. Each State agency is responsible for the timely and accurate issuance of benefits to certified eligible households, including EBT system compliance with the expedited service benefit delivery standard and the normal application processing standards, as prescribed by these regulations. Those households located in rural areas or comprised of elderly or disabled members who have difficulty reaching issuance offices, and households which do not reside in a permanent dwelling or of a fixed mailing address shall be given assistance in obtaining an EBT card. State agencies shall assist these households by arranging for the mailing of EBT cards to them, by assisting them in finding authorized representatives who can act on their behalf, or by using other appropriate means.

Good internal controls dictate that CHFS ensure that adequate controls are in place within their systems. This includes properly monitoring benefit payments to ensure that benefits are paid to eligible recipients at the correct amounts.

**Recommendation**

We recommend CHFS investigate the 141 known cases with multiple EBT accounts to determine if there are more duplicating benefits. Further we recommend that CHFS acquire a monthly report from the EBT vendor and reconcile EBT accounts with repeating social security numbers to ensure the error is not recurring and to investigate the benefit disbursement within a timely manner. CHFS should investigate the cause of the duplicated EBT accounts and duplicate benefits and make necessary changes to prevent this occurrence.

Finally, there should be a review of Kinship Care cases to ensure that there are no additional cases with duplicate payments.

**Management's Response and Planned Corrective Action**

*The Division of Family Support (DFS) has reviewed the 141 cases with multiple EBT accounts. We established claims on cases that had duplicate benefits to recoup the benefits issued in error.*

*DFS is working with the Office of Administrative Technology Services Eligibility Systems Management Branch and the EBT vendor to determine the cause of the creation of the duplicate accounts and ensure the necessary changes are made to prevent a reoccurrence. This work will also include a review of the Kinship Care cases to identify any payments made in error and refer them for recoupment. Additionally, DFS is working with the EBT vendor to develop a monthly report to identify any duplicate accounts generated.*

## FINANCIAL STATEMENT FINDINGS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-007: The Cabinet For Health And Family Services Did Not Ensure That Reliable And Verifiable Methods Were Utilized For The Calculation Of Accounts Payable To Local Health Departments**

This is a repeat finding. The original finding, 2015-004, was included in Volume I of the fiscal year 2015 SSWAK report. As part of the Cabinet for Family and Health Services (CHFS) audit for fiscal year 2016, accounts payable estimates and the processes used to create them were reviewed to determine if they were accurately calculated, could be repeated with available information, and produced reasonable estimates of future transactions. CHFS uses data from prior fiscal years to estimate amounts reported for accounts payable when actual amounts are not known. One of the estimates used was for the closing amounts that were payable to the local public health departments on June 30. Based on data provided by the Department of Public Health, the estimated closeout payment was \$6,995,200, while the actual amount was \$6,038,127, for a difference of \$957,073. When auditors requested the agency's methodology for the estimated and actual amounts, the auditor received a Standard Operating Procedure (SOP).

The Standard Operating Procedure (SOP) states the following:

DPH does a projection to estimate the closeout payments for each program. This is completed by a collaboration of methods based on the individual program such as meeting with program staff and historical data. Once the budget staff has completed the projection, a review by the branch manager and assistant director follows.

The process for determining these estimates was not documented in enough detail to allow auditors to replicate them in an effort to complete an independent review of the agency's estimates. Based on the SOP and discussions with DPH personnel, the auditor could not confirm that figures were complete and accurate.

As seen in the table below, DPH's estimated payables exceeded the actual amount by approximately 12.8% in fiscal year 2015 and 13.7% in fiscal year 2016. By contrast, if the agency had estimated the 2016 payable amount based on the 2015 actual final payment the difference would have been 2.1% which is shown in the Auditor Analysis portion of the table.

<b>Auditor Analysis</b>						
<b>Fiscal Year</b>	<b>Estimated Outstanding Accounts Payable</b>	<b>Actual Final Payments</b>	<b>Variance</b>	<b>% Variance In Estimated Accounts Payable by Fiscal Year</b>	<b>Variance For Estimates Had Actual Final Payments Been Used</b>	<b>% Variance For Estimates Had Actual Final Payments Been Used</b>
2015	\$ 6,780,800	\$ 5,914,992	\$ (865,808)	(12.8)	\$ N/A	N/A
2016	6,995,200	6,038,127	(957,073)	(13.7)	123,135	2.1

Processes for determining estimated accounts payable to local health departments were not adequately documented nor were the results adequately reviewed or compared for accuracy. The inability to replicate the estimates for DPH results in unreliable data comparisons and increases the likelihood that the agency could report payable amounts that do not accurately reflect actual amounts.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-007: The Cabinet For Health And Family Services Did Not Ensure That Reliable And Verifiable Methods Were Utilized For The Calculation Of Accounts Payable To Local Health Departments (Continued)**

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When estimation processes are not written, the calculations are not adequately documented, and the resulting data is not properly assessed, the resulting estimates are not reliable and create the risk of incorrectly reporting amounts for those accounts.

Good internal control dictates that CHFS management establish processes for calculating accounts payable estimates. The processes should identify all factors that impact the estimate and include changes in the operation of federal programs. Estimates should be based on data that is relevant, sufficient, and reliable.

Further, the establishment of processes for calculating estimates should include the review and approval of accounting estimates at the appropriate levels of authority, which includes:

- Review of the sources of the data accumulated for the estimates;
- Review of the assumptions related to the estimates;
- Review of the reasonableness of the assumptions and the estimates made;
- Consideration for the use of specialists if needed;
- Consideration for when changes need to be made to previously established methods.

Good internal controls over the closing package forms and year-end reporting activities dictate that adequate review procedures be created and followed to ensure that the closing package submitted to FAC contains reliable, verifiable and accurate data. Proper internal controls dictate that all supporting financial data be reconciled and reported timely.

#### **Recommendation**

We recommend CHFS:

- Develop a reliable and verifiable accounting estimate for the DPH payable amount that is supported by appropriate data that is able to be reconciled and replicated;
- Implement policies and procedures to ensure that estimates used for financial reporting are adequately reviewed to ensure accuracy of financial reporting. This should include consideration of actual amounts paid in future periods compared to estimates. Where estimates are found to be inaccurate, adjustments should be made to their estimation processes to ensure that amounts reported accurately reflect actual expectations based on relevant conditions impacting financial information;
- Review its procedures for compiling and reporting the agency financial activity related to preparation of the closing package to ensure a consistent method for reporting all financial activity. In addition, considerations should be made to ensure an adequate and thorough review of the closing package information prior to a timely submission to FAC.

The goal should be to ensure complete and accurate information is presented in the state's financial statements.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-007: The Cabinet For Health And Family Services Did Not Ensure That Reliable And Verifiable Methods Were Utilized For The Calculation Of Accounts Payable To Local Health Departments (Continued)**

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**Management's Response and Planned Corrective Action**

*The Department for Public Health (DPH) agrees with the auditor's finding that its calculation process is complex and cannot readily be duplicated. It should be noted that the DPH reported an estimate of \$6,995,200 in the FY16 Closing Package while actual closeout payments totaled \$6,720,070.29, not the \$6,038,126.59 reported in the audit. The DPH reported to the auditor that closeout payments had not been completed at the time of the audit; therefore, the actual closeout amount would increase. Using the actual closeout payment total of \$6,720,070.29 leaves a difference of only \$275,129.71 from the estimated amount included in the FY16 Closing Package.*

*In determining estimated payables to the Local Health Department (LHDs), DPH reviews approximately 100 programs annually that receive allocated funding. This review entails analysis of all programs to include fiscal constraints such as reimbursement strategy, one-time funding availability, patient enrollment and/or participation, new and/or terminated programs, and realignment of federal funds.*

*While the DPH reviews the most current three months of reimbursements for these programs to determine an average estimated amount of payment, the overall estimated amount is determined through a more complex process that may not be scientifically duplicated. With consideration given to the historical average, judgments are made based on knowledge of program execution and funding availability. As a result, the estimates are not wholly scientific since individual judgments are made to ensure estimated amounts are within actual expectations of program outlays.*

*Due to the complexity of the LHD closing process and intricacies of each program, the DPH cannot implement an across-the-board methodology for calculating closeout payments. The DPH will update its policy to require the past three years of closeout payments to be included in the FYE Closing Package, as recommended by the auditor. This will aid in justifying/validating the DPH's methodology for calculating the estimated LHD closeout payments.*

*Once estimated amounts are calculated, they are reviewed and approved by the budget branch manager and the assistant director.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-008: The Cabinet For Health And Family Services Edits Were Not Sufficient To Prevent Or Detect Improper Payments For Ineligible Medicaid Recipients Or Providers**

During the FY 2016 audit of the Cabinet for Health and Family Services (CHFS), Medicaid fee for service benefit payments were tested against provider eligibility. Forty-five claims were tested and one Diagnostic-Related Group (DRG) claim in the amount of \$3,696 was identified as wrongfully paid because the provider was not correctly classified.

The error was caused by two separate elements:

- The Provider's Primary Specialty Type was incorrectly classified as an Acute Care Hospital with an "effective date" of July 1, 2008 and with an "end date" of July 1, 2008 by the Providers Licensure and Certification Branch of the Department for Medicaid Services. The provider's primary specialty was updated to indicate the correct classification as ventilator hospital; however, the field used to indicate the Primary Specialty was not corrected.
- Upon further inquiry, personnel from an external vendor disclosed to auditors that due to the nature of DRG claims, KYMMIS (Kentucky Medicaid Management Information System) does not consider the Provider Specialty "effective date" and "end date" during payment determination for this claim type. Because the incorrect Provider Specialty was identified as primary, KYMMIS did not look for end or beginning dates for this specialty type and paid this invalid claim in error.

In summary, if the Provider's Primary Specialty Type was correctly coded as a Ventilator Hospital or the providers specialty effective dates were compared to the date of service on the claim, KYMMIS would have properly denied the DRG claim.

Based on this exception, the auditor performed further testing of DRG claims. Results of the additional testing indicated three additional payments were wrongfully paid. These errors were also attributable to the edits placed on DRG claims. KYMMIS did not adequately cross evaluate the claims' service dates against the "effective date" and "end date" of the members benefit plan prior to payment. These improper payments were made in the amounts of \$4,136; \$4,086; and \$1,228.

Internal controls established by the Department of Medicaid Services' (DMS) Providers Licensure and Certification Branch did not detect the improper coding of the provider's primary specialty within KYMMIS. Additionally, KYMMIS claims processing edits were not sufficient. There were no edits in place to verify that the dates of service for DRG claims were within the provider and member effective dates. If adequate edits were in place, the claim would have been denied because the "first date of service" was outside of the "effective date."

DMS made improper payments to providers totaling \$13,146. This amount represents a questioned cost to the Medicaid grant. This amount is also incorrectly reported as an expenditure in the state's general fund (\$3,902) and federal fund (\$9,244).

Good internal controls dictate that DMS ensure that adequate controls are in place within the KYMMIS system. This includes the development of edits or audits applied to evaluate the appropriateness of claims submitted by providers. DMS management should have an active role in the development of edits and audits applied to claims and should monitor changes to verify that adequate controls are in place to ensure that only eligible claims are paid.

## FINANCIAL STATEMENT FINDINGS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-008: The Cabinet For Health And Family Services Edits Were Not Sufficient To Prevent Or Detect Improper Payments For Ineligible Medicaid Recipients Or Providers (Continued)**

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In order to be considered an allowable cost to the Medicaid grant, medical services must be paid to eligible providers and only provided on behalf of eligible individuals. To ensure that payments are made to eligible providers, the KYMMIS system must accurately reflect the provider's approved services.

"Improper payment" is defined at 42 CFR 431.958 as:

Improper payment means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and includes any payment to an ineligible beneficiary, any duplicate payment, any payment for services not received, any payment incorrectly denied, and any payment that does not account for credits or applicable discounts.

42 CFR 431.960 describes the types of Medicaid and KCHIP improper payments that CHFS is required to be reported to CMS:

- (a) *General rule.* State or provider errors identified for the Medicaid and CHIP improper payments measurement under the Improper Payments Information Act of 2002 must affect payment under applicable Federal policy or State policy or both.
- (b) *Data processing errors.* (1) A data processing error is an error resulting in an overpayment or underpayment that is determined from a review of the claim and other information available in the State's Medicaid Management Information System, related systems, or outside sources of provider verification.
- (2) The difference in payment between what the State paid (as adjusted within improper payment measurement guidelines) and what the State should have paid, in accordance with the State's documented policies, is the dollar measure of the payment error.
- (3) Data processing errors include, but are not limited to the following:
  - (i) Payment for duplicate items.
  - (ii) Payment for non-covered services.
  - (iii) Payment for fee-for-service claims for managed care services.
  - (iv) Payment for services that should have been paid by a third party but were inappropriately paid by Medicaid or CHIP.
  - (v) Pricing errors.
  - (vi) Logic edit errors.
  - (vii) Data entry errors.
  - (viii) Managed care rate cell errors.
  - (ix) Managed care payment errors.



**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-008: The Cabinet For Health And Family Services Edits Were Not Sufficient To Prevent Or Detect Improper Payments For Ineligible Medicaid Recipients Or Providers (Continued)**

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**Recommendation**

We recommend DMS management conduct a review of KYMMIS provider claim edits currently in place. Specifically, they should determine whether there are any additional claims types processed that do not currently check against the effective dates for both the provider and member. Consideration should be made to include these edits where they are not currently applied.

DMS' Provider Licensure and Certification Branch has a quality review system in place over data entry of provider enrollment. We recommend that the Branch review the error noted in marking the incorrect primary specialty to determine how to prevent similar errors from occurring and identifying any additional providers with an incorrect primary specialty indicated in KYMMIS.

As DMS works to develop a new provider enrollment system, we recommend that this new system include a method to track individuals making new entries or corrections to the provider enrollment data, and a method to distinguish the personnel entering, reviewing, and approving or denying provider applications. We also suggest that this new enrollment system provide DMS the ability to make and maintain notes related to each provider's case. A sufficiently documented system of approvals would allow the authorizations to be verified and audited.

**Management's Response and Planned Corrective Action**

*As noted by the auditor, DMS' Provider Licensing & Certification Branch has a quality review process/system currently in place. Per the auditor's recommendations DMS will improve that process/system in two ways. First, DMS will emphasize through direct counseling with enrollment staff the importance of correctly setting the primary specialty indicator in MMIS and counsel staff against relying on end dating of a specialty segment. Second, staff responsible for quality review will be counseled to pay particular attention to the primary specialty indicator when reviewing approved enrollment applications. These actions will be completed by December 15, 2016.*

*Per the auditor's recommendations, the new provider enrollment system (Partner Portal) will include a method of tracking entries/corrections and a method to track personnel entering, reviewing, approving and denying enrollment applications. Further, Partner Portal will have robust note taking capabilities.*

*In addition, MMIS technical team and DMS policy team will review the claims processing edits and analyze for any new system edits that can be in place. Review will be completed by January 31, 2017.*

## FINANCIAL STATEMENT FINDINGS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-009: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Certain System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation**

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This is a repeat finding. The prior year finding, 2015-008, can be found in Volume I of the fiscal year 2015 SSWAK. The fiscal year 2016 audit of the Cabinet for Health and Family Services (CHFS) Kentucky Medicaid Management Information System (KMMIS) revealed the Department for Medicaid Services (DMS) did not maintain updated documentation of all programmed audits and edits performed during KMMIS system processing. In addition, there were instances found during testing where certain edits were not necessary. These audits and edits were applied to those transactions paid by the Commonwealth for individuals not eligible for managed care. System edits ensure the data within a transaction is complete, accurate, and formatted correctly; whereas, system audits provide a check against historical transactions to ensure the current claim is valid and allowable. Multiple instances of inactive system audits or edits continued to be identified as active within agency manuals, whereas multiple active audits and edits were omitted from the associated documentation or listed as inactive. Similar issues were noted in the prior five audits, although many improvements have been made during FY 2016.

DMS uses audits and edits within the KMMIS application for quality assurance purposes. This process is intended to ensure data input is accurate and complies with Medicaid eligibility guidelines. DMS created the following three manuals to document the available KMMIS audits and edits: the KMMIS Audit Manual; the KMMIS Claim Check Manual; and the KMMIS Edit Manual.

Of the 594 programmed audits tested, we determined the following:

- Four audits were identified by the agency as active and open within KMMIS; however, these were not included in the Audit Manual, Edit Manual, or KMMIS Claim Check Manual.

Of the 809 programmed edits tested, we determined the following:

- Two edits are included in the Edit Manual as active, but were not identified by the agency as active and open edits within KMMIS.
- One edit found within the active edit report generated from KMMIS was not found within the Edit Manual or the KMMIS Claim Check Manual.
- Four edits found within the active edit report generated from KMMIS, but were not reported in the Edit Manual or the KMMIS Claim Check Manual. The edits were incorrectly placed within the Audit Manual.

Seven audits and nine edits were sampled for the current fiscal year where five or less claims met the designated criteria to determine whether the audit or edit was active and functioning as intended. Two out of the seven audits, or approximately 28.57 percent, tested were identified as either having an end or expiration date or no longer covered. The Audit Manual should be updated to reflect these as inactive audits. Three out of the nine edits, or approximately 33.33 percent, tested were noted as no longer being necessary or are currently inactive.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-009: The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Certain System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation (Continued)**

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Although DMS reviews the functionality and documentation related to all audits and edits DMS has not consistently updated programmed audits and edits or related manuals.

Failure to accurately document system audits and edits increased the risk that agency staff will be unfamiliar with audit and edit criteria. In addition, outdated documentation could also be a reflection of inaccuracies within the KMMIS audit or edit configurations, which could lead to erroneous claims being processed or valid claims being denied. Inaccurate audit or edit configurations could allow eligible payments that should be processed to be declined, ineligible payments to be processed, or transactions for inaccurate or excessive amounts to be processed successfully. Failure to adequately maintain audits and edits could result in transactions not being paid timely or accurately.

Updated documentation of all system audits and edits must be retained for quality assurance purposes and distributed to all responsible personnel. In addition, all system audits and edits must be configured according to the agreed upon and approved criteria.

#### **Recommendation**

We recommend DMS specifically address the audits and edits within this comment, working with the vendor to correct any configuration and documentation inaccuracies as the audits and edits are reviewed. All audits and edits should comply with statutes and regulations, and the logic behind the configuration should agree to the desired function. The Audit, Edit, and Claim Check manuals should be updated to reflect the necessary changes identified in this finding, including descriptions of all audits or edits and the active, inactive, or end-dated status of each audit or edit. In addition, within the Claim Check manual, the designation of whether the error code will function as an audit or edit should be explicitly stated.

#### **Management's Response and Planned Corrective Action**

*To ensure that we fully comply with APA Audit finding 2016-009 concerns with the Edit, Audit and Claim Check Manuals, we will implement the following:*

- 1) Prior to Business Analyst (BA) updating Change Order (CO) or defect status to 'DMS analyst review complete' on any item that resulted in manual updates, they will access the PWB and verify that the above three manual updates have been completed.*
- 2) The BAs will review the Claim Check Manual and ensure all pages identify if the criteria is an edit or audit function.*
- 3) Implement a monthly BA quality review of edit and audit manuals that will be tracked in the DMS Interactive portal under OATS Research Item # 27157*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

**FINDING 2016-009:** The Cabinet For Health And Family Services' Department For Medicaid Services Did Not Ensure Certain System Audits And Edits Were Accurately Configured For The Kentucky Medicaid Management Information System And Were Kept Up To Date Within System Documentation (Continued)

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**Management's Response and Planned Corrective Action (Continued)**

- a. *The manager of the DMS monitoring branch will create a calendar for each year, rotating BA responsibility monthly.*
- b. *The review will be completed by the 15<sup>th</sup> of each month for the previous month. When the 15<sup>th</sup> falls on a weekend, the review will be completed the first working day after the due date.*
- c. *The BA will run a report of all COs and defects for the month, determine if any of those resulted in manual updates.*
- d. *Review each manual and ensure that the updates are complete.*
- e. *Add a clarification to the OATS research item with the results of their review and add the date their review is complete in the calendar beside their name.*
- f. *The Manager of this Branch will also ensure that as this process kicks off, the BAs will do a thorough review in the first month of each manual. The table of contents will be verified against the document content and vice versa.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-010: The Cabinet For Health And Family Services Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information**

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This is a repeat finding. The original finding, 2015-006, can be found in Volume I of the fiscal year 2015 SSWAK. The fiscal year (FY) 2016 audit revealed weaknesses in the Cabinet for Health and Family Services (CHFS) procedures regarding the security of confidential and sensitive data. CHFS is required to follow Commonwealth Office of Technology (COT) enterprise policies and standards, and there are several policies and processes that address data protection. Situations were identified where CHFS did not follow these policies to ensure all data was fully protected. However, CHFS has taken steps to protect certain types of data.

Detailed information that could increase the risk of agency security being compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with CHFS.

CHFS is aware of COT's data protection policies; however, the consolidation efforts related to the Information Technology Infrastructure Initiative with COT are still ongoing and roles and responsibilities of each agency have not been clearly or completely defined.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors.

Sensitive or confidential data must be protected from unauthorized users or exposure to the general public. The agency should completely and consistently comply with all applicable COT enterprise policies and standards related to protection of sensitive and confidential data received, housed, and transmitted by the agency. Specific policies and standards have been discussed with the agency.

#### **Recommendation**

We recommend CHFS management ensure all data received, housed, or transmitted, is reviewed to determine whether it should be classified as confidential and sensitive based on the COT enterprise standards. Once this determination has been made, data classified as confidential or sensitive should be sufficiently protected in compliance with COT enterprise policies and standards. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority. Work plans established with COT to enhance security over certain confidential and sensitive data should be completed. Further, management should provide training to staff, as needed, to ensure policies are consistently applied.

#### **Management's Response and Planned Corrective Action**

*A data classification program is currently in development under the new CISO/CSO and staff. A collective effort is continuing with COT to align efforts, and ensure protection is assigned, and developed accordingly. CISO has developed a staffing/resource proposal, and that is currently under review. Included in this proposal are resources to address training, governance, and policy review.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-011: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards**

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The fiscal year 2016 audit revealed the Cabinet for Health and Family Services (CHFS) has not complied with the Commonwealth Office of Technology's (COT) CIO-082 Critical Systems Vulnerability Assessments policy, which requires a third party entity to perform vulnerability assessments of agency critical systems at implementation and every two years thereafter. CHFS has not created a comprehensive listing of critical systems as is required by the policy. Further, vulnerability assessments are not being performed by a third party every two years for those systems deemed critical. However, vulnerability assessments are being performed by a third party as it relates to the Kentucky Health Benefit Exchange (KHBE) prior to major releases being implemented into production.

Specifically related to the KHBE, CHFS conducts several assessments in accordance with guidance provided by the Center for Medicare & Medicaid Services (CMS). Review of these assessments revealed CHFS is having the assessments conducted and documenting the results that are required to be reported to CMS. In addition, the CHFS application security staff is performing vulnerability assessments on new code in a test environment before the code is moved to production. According to CHFS staff, the CHFS application security team communicates the noted vulnerabilities to the development team in person. It should be noted the development team is comprised of CHFS staff and staff of the application vendor. When issues are remediated, the development team either calls or emails the CHFS application security team to notify them that the code is ready for re-assessment. However, review identified the following weaknesses in this process:

- No documentation is maintained to support the communications between the CHFS application security team and the development team regarding the discovery and remediation of the vulnerabilities.
- No documentation is maintained to support the remediation of the vulnerabilities.
- No documentation is maintained to support the follow-up scan to verify there are no vulnerabilities remaining.

Without this documentation, auditors were not able to verify vulnerabilities were being addressed prior to the code being moved to production. It should be noted the application vendor staff log the vulnerabilities prior to making the necessary modifications; however, CHFS confirmed the information maintained in this log does not address the weaknesses identified within the vulnerability assessments.

CHFS did not comply with the requirements of the CIO-082 in regards to the timing of vulnerability assessments. CHFS management did not develop a schedule identifying critical systems that require periodic scanning. Because the vulnerabilities noted in the test environment of the KHBE do not need to be reported to the CMS unless they are moved to production, CHFS does not maintain documentation related to the remediation of these vulnerabilities.

The absence of a strong vulnerability assessment program increases the likelihood that security vulnerabilities exist undetected on agency computer systems. This increases the risk that an intruder could exploit security vulnerabilities to compromise computer resources. Further, since CHFS management has not identified critical systems and required routine vulnerability assessments, critical systems are not guaranteed to be properly scanned.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-011: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards (Continued)**

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Regular vulnerability assessments for critical systems are integral to ensuring the security over agency resources is functioning as intended. Vulnerability assessments provide a proactive means of identifying and addressing real or potential security flaws, thereby reducing the risk of an intruder exploiting these flaws.

According to COT enterprise policy CIO-082 Critical Systems Vulnerability Assessments,

Agencies will be responsible for identifying critical systems based on the nature of the data and the system's business function or mission. The term "critical system" refers to the server, or servers, that support one or more critical business application. This may include web servers, database servers, and other servers that are essential to the operation of the business application. Each Agency shall engage a third party to assess all critical systems under the Agency's responsibility both upon initial implementation into production use and every two (2) years thereafter. These network and server vulnerability assessments do not include the development environments, or application software, related to these systems, which must be tested separately.

#### **Recommendation**

We recommend CHFS management review all existing systems and identify those meeting the criteria of critical as stated within the CIO-082 Critical Systems Vulnerability Assessment policy. CHFS should also create a written process to address the periodic performance of vulnerability assessments on critical systems. This agency-specific implementation of the CIO-082, at a minimum, should require;

- a periodic reevaluation of all critical systems,
- a schedule for frequency of scans,
- the overall scope of the vulnerability assessments,
- the required documentation to be retained from each assessment, and
- the requirements for correcting identified issues.

Further, CHFS should ensure COT or another third party vendor performs the vulnerability assessments in accordance with the CIO-082 policy. Adequate documentation should be maintained to support the assessments performed on agency devices for audit purposes.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-011: The Cabinet For Health And Family Services Did Not Perform Vulnerability Assessments In Accordance With Enterprise Policies And Standards (Continued)**

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**Management's Response and Planned Corrective Action**

*Under the leadership of the new CISO, and staff, current efforts are taking place to identify critical systems, and vulnerability assessment requirements. The existing Information Technology Management Portal (ITMP) portal does list systems, and the criticality of same. The new staff is simply vetting that information, and ensuring it is the most current. Once complete, CHFS staff will coordinate with COTS staff to ensure criticality is assigned, and cooperate with scanning efforts of the servers which are under the control of COT.*

*CHFS Security Department will review current reporting process, and documentation processes then make needed adjustments, along with creation of any matching policies or procedures required to address performing periodic vulnerability assessments of critical systems.*



## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-012: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files**

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This is a repeat finding. The original finding, 2015-009, can be found in Volume I of the fiscal year 2015 SSWAK. During the fiscal year (FY) 2016 Cabinet for Health and Family Services (CHFS) audit, duplicate case files within the Kentucky Health Benefit Exchange (KHBE) Worker Portal module were incorrectly merged. The existence of incorrectly merged cases increases the risk for someone other than the member to be able to view personally identifiable information (PII) through one of the KHBE user applications, either kynect or Benefind. This issue was first noted in FY 2014; however, since that time, procedures have been implemented to help decrease the opportunities for cases to be incorrectly merged.

During FY 2016, CHFS determined 32 cases were incorrectly merged. Of these cases, nine were identified as potential PII disclosures. The first name, last name, and individual identification number issued by the agency could have theoretically been disclosed. However, upon further investigation, CHFS determined the misuse of PII was not likely to occur.

Beginning in FY 2015, CHFS management altered features within the system to provide CHFS employees with tools to better assess whether duplicate cases exist and need to be merged or are unique and should be maintained separately. These tools include filtering for specific data matches and additional detailed information and comparison capabilities that would allow the CHFS employees to make more informed determinations. In addition, business rules for the programmatic identification and merging of duplicate cases were tightened. Application changes were made to make the manual merging of cases more difficult and to require more reviews by caseworkers. Additional training was conducted and job aids were developed for caseworkers to clarify functionality and use of the KHBE system. Furthermore, an additional tool, which is monitored multiple times throughout the day, has been provided to help monitor the potential merger of cases.

In FY 2016, CHFS management altered features within the system further to prevent employees from incorrectly changing identifying information for individuals. These features became effective in October 2015 and include making information unalterable once it has been verified by a validated source. Access role specifications within the KHBE Worker Portal have been revised to only allow employees with specific roles the ability to edit confirmed information. Further, when an employee attempts to edit two or more fields of identifying information in a session, a popup screen warns the employee they are about to make a change to an existing case and provides guidance on setting up a new case, if necessary. If the employee agrees to the changes, the change is automatically logged for review.

Historically, individuals who are requesting eligibility determinations for service would meet with a CHFS Department for Community Based Services (DCBS) employee and provide all necessary information at that time. This direct interaction would allow the employee to better make the determination of whether there was an existing case within the system for the individual. Although direct interaction with DCBS employees is still an option, with the advent of the KHBE, individuals now also have the ability to enter their own personal information into the website. This change introduced the potential for case files to be incorrectly merged.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-012: The Cabinet For Health And Family Services Caseworkers Incorrectly Merged Member Case Files (Continued)**

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If case files are incorrectly merged, it is possible for an individual other than the member to view or alter PII related to the member.

According to the National Institute of Standards and Technology (NIST) Special Publication 800-122, “PII should be protected through a combination of measures, including operational safeguards, privacy-specific safeguards, and security controls.” Therefore, access to PII should be restricted to only the associated member and appropriate staff who must work with the data in order to provide the required services. Further, separate case files should be maintained for all unique individuals.

#### **Recommendation**

We recommend CHFS continue to monitor the effectiveness of the tools put in place to assess whether cases are duplicates and need to be merged or are unique and should be maintained separately. If these tools are not as effective as anticipated, CHFS management should consider additional process changes to ensure only true duplicate case files are merged.

#### **Management’s Response and Planned Corrective Action**

*CHFS agrees with the comment and recommendation. OATS and DCBS continue to monitor the effectiveness of the tools put in place and refine the overall process for preventing case mergers. During FY 2015 when this weakness was initially identified, there were 344 of 524 incorrect case mergers whereas in FY 2016 there were 32 incorrect case mergers. The established tools, procedures and training have been effective thus far in reducing the number of incorrect case mergers.*

*The CHFS designated Security and Master Client Index (MCI) team will remain dedicated to immediately address any incorrect member matches or member overlay issues. Quarterly meetings started taking place in second quarter 2016 to discuss trends identified by the MCI and Data Quality and Integrity Teams, potential impacts to the organization, and possible corrective action plans.*

*CHFS understands the serious nature of the potential disclosures that may result from incorrect member matches and will continue to identify preventative measures to refine the system and processes to mitigate future incidents.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-013: The Cabinet For Health And Family Services Did Not Update Or Consistently Apply Security Procedures Related To The Virtual Private Network**

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The fiscal year (FY) 2016 audit of the Cabinet for Health and Family Services' (CHFS) Kentucky Health Benefit Exchange (KHBE) revealed the agency does have formalized procedures for requesting access to the Virtual Private Network (VPN); however, discussion with agency management indicated these procedures are outdated and no longer followed in practice. Although new procedures have been informally established, they are not consistently applied.

Two sets of formalized procedures for requesting VPN accounts were provided in response to audit requests, one dated May 19, 2014, and the other dated March 23, 2015; however, CHFS management confirmed neither of these procedures is currently accurate. It should also be noted the May 19, 2014 version is still available on the CHFS intranet site for reference.

According to the informal procedures, requests for VPN accounts must be made using the COT-F181EZ form. A valid business justification for the account must be included in the comments section of this form. The user's supervisor will then email the form to the CHFS VPN Mailbox and include a message verifying approval. The Chief Information Officer (CIO) will review and approve the request, create a tracking ticket for the request, and the Commonwealth Office of Technology (COT) will complete the task.

The auditor reviewed the documentation supporting the access granted to three users in FY 2016 based on the informal process and noted exceptions with all three users. No justification was provided on the COT-F181EZ form for one of the users. Although a justification was provided, the wrong name and template language was listed in the justification field for the second user. No request date or effective date was included on the form for the third user. The email demonstrating the approval of the request was not maintained for two of the users.

In follow-up to determine why the emails for two users were not available, CHFS indicated that if the request is not made through the CHFS VPN Mailbox then the individual responsible for maintaining this documentation centrally will not be aware a request was made. Although CHFS intends for COT to only process requests submitted by one of four individuals specifically authorized to send mail on behalf of the CHFS VPN Mailbox, this intention was not clearly communicated to COT. According to the procedures effective March 23, 2015, which are titled 'Technology Help Desk Procedures,' COT can accept VPN requests from any individual listed as an Information Technology (IT) Services contact or Human Resource (HR) contact for CHFS on the Agency Contact Listing. At the time of fieldwork, there were 23 IT Services contacts and 846 HR contacts for CHFS on this listing.

Further review of the 'Technology Help Desk Procedures' revealed, for several of the rated services provided by COT, an HR contact at CHFS is authorized to submit the request; however, these services are all IT-related. In addition, review of the Agency Contact Listing revealed one of the Security contacts and one of the IT contacts listed as authorized requestors for CHFS are no longer employed by the agency.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-013: The Cabinet For Health And Family Services Did Not Update Or Consistently Apply Security Procedures Related To The Virtual Private Network (Continued)**

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CHFS management did not ensure the formal logical security procedures for VPN accounts were updated to reflect the current process and distributed to appropriate staff. In addition, management did not ensure the informal process related to VPN accounts was consistently applied. Further, management did not ensure COT had a current list of authorized requestors for rated services.

Without sufficient logical security controls in place, the risk is increased for unauthorized access, modification to computer programs and data, destruction of assets, and interruption of services.

Logical security controls must be finalized, approved, thoroughly documented, and consistently applied to ensure only authorized individuals are allowed access to a system. All authorized requestors should be provided with the most recent versions of forms and procedures to ensure the approved procedures are being followed. All requests for access or privileges to a system should be properly authorized, reviewed, and documented.

According to the established informal process, requests for VPN accounts must be made using the COT-F181EZ form and include a valid business justification. The user's supervisor must email the form to the CHFS VPN Mailbox with a message verifying approval. The request will then be approved by the CIO, a ticket will be created, and COT will complete the task.

#### **Recommendation**

We recommend CHFS update the 'Technology Help Desk Procedures' document to reflect the current process. The procedures should stipulate the requests for VPN accounts must be submitted to the CHFS VPN Mailbox and establish repercussions for circumventing this process. A requirement for a periodic review of users should also be established in the procedures to verify all users are approved and still require access. Once updated, the procedures should be distributed to appropriate personnel and management should ensure all users requesting VPN accounts follow proper procedure. The outdated procedures on the CHFS intranet site should be replaced with the updated procedures.

In addition, CHFS should determine the appropriate individuals to handle the requests for IT-related rated services and update the 'Technology Help Desk Procedures' as necessary to reflect any changes. The list should be modified to more narrowly define the items each group is authorized to request. We recommend management consider removing the HR Contacts group from being authorized to submit requests for IT-related services unless there is a documented need approved by management.

Further, CHFS should conduct a complete review of the Agency Contact Listing to verify all CHFS employees on this list are still employed by the agency and job duties require their continued inclusion in the designated group. When this review is complete, an updated list should be approved by CHFS management and submitted to COT. In addition, CHFS management should work with COT to ensure authorization restrictions identified within the 'Technology Help Desk Procedures' document are appropriately designated in the Agency Contact Listing and disseminated to applicable COT staff.

**FINANCIAL STATEMENT FINDINGS**

***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

**FINDING 2016-013: The Cabinet For Health And Family Services Did Not Update Or Consistently Apply Security Procedures Related To The Virtual Private Network (Continued)**

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**Management's Response and Planned Corrective Action**

*CHFS leadership will review the procedures, and make corrections as required, and document same.*

*CHFS leadership additionally will coordinate with COT to ensure proper procedure for obtaining VPN services from COT is documented and distributed to appropriate personnel. VPN services are provided, and managed by COT.*

*CHFS leadership will further include governance, and auditing procedures to verify procedures, and policy is followed.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-014: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies**

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The fiscal year (FY) 2016 audit of the Commonwealth Office of Technology (COT) revealed policies and procedures did not specifically address responsibilities for COT and individual agencies associated with agencies consolidating their information technology infrastructure and resources within COT.

Out of the 22 agencies and various boards and commissions involved in the Information Technology Infrastructure Initiation (I.3), at the end of fieldwork, the consolidation process is fully complete for only two of the agencies. As part of the I.3 consolidation process, COT is to work with agencies to define the responsibilities and expectations for both entities. While the Technology Advisory Council has created a Service Level Agreement (SLA) template, the agreement language is written at a very high level and is not specific for individual agencies. Review of the two completed agency SLAs revealed that there were minimal modifications in the SLA to customize the specific terms to the individual agency. These SLAs were also found to have expired either prior to or near the beginning of FY 2016. Further, COT provided another SLA for a cabinet that was not considered part of the I.3 as it was already consolidated with COT prior to that time. This SLA was found to have been signed in August 2006. No updates or revisions to this SLA were provided. Therefore, there were no SLAs identified for any agency, board or commission covering the entirety of FY 2016.

Additionally, COT developed the COT-067: Security Standard Procedures Manual (SSPM) as an internal procedure document related to security planning and execution for COT managed assets. However, a review of the SSPM, which was in the process of being updated during fieldwork, but was most recently revised on September 20, 2010, revealed procedures to be followed by COT when performing management or maintenance responsibilities for consolidated agencies were not explicitly defined. We are aware that COT plans on migrating from the SSPM policy as new Enterprise policies are developed; however, the SSPM will remain in place for procedural matters not covered by the Enterprise policies.

Further, the CIO-082 Critical Systems Vulnerability Assessments does not specifically identify the responsibilities of COT and the agencies concerning the identification of critical systems, the determination of infrastructure devices on which these critical systems are housed, and the coordination of vulnerability assessments on these infrastructure devices. This designation of responsibility is necessary since the systems are under the ownership of the agency, but, the infrastructure devices are owned and managed by COT for consolidated agencies.

The SLA template is generic and does not necessarily address the unique needs of each agency. Although, the SSPM is in process of being updated, COT management has not made necessary updates to address the I.3 consolidation efforts and finalized the draft SSPM since September 2010.

Without adequate formal policies and procedures in place outlining both COT and agency responsibilities for performing functions within the SSPM, Enterprise policies, and individual SLAs between COT and consolidated agencies, accountability is lost and unwarranted access could be granted, unintended actions could be taken, or system performance and availability may potentially be degraded.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-014: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies (Continued)**

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Formal policies and procedures should be updated to address specific responsibilities of COT and each of the agencies involved in the infrastructure consolidation. Formal policies should provide a security framework to educate management and users of their responsibilities. Consistent application of formal security policies and procedures provides continuity and establishes the commitment of management for strong system controls.

#### **Recommendation**

We recommend COT continue to work with applicable agencies to ensure the I.3 project is completed and responsibilities for both COT and agency staff are properly defined and documented within the individual SLAs. To ensure this process is performed consistently, COT management should develop a written policy statement that defines in general terms what constitutes a consolidated agency and how the SLA is developed and monitored in relation to these agencies.

Additionally, it is our understanding that COT is in the process of migrating from using the SSPM for policy related matters and instead creating full Enterprise policies. As the new Enterprise policies are created, we recommend COT ensure they comply with the security and privacy controls established by the National Institute of Standards and Technology. Also, COT should continue to ensure that the policies specifically address the requirements related to those agencies that have consolidated information technology services and resources with COT.

As noted above, we recommend COT management update the agency-level SLA to more thoroughly define specific responsibilities for each agency. The individual agreements developed should be as complete and detailed as possible. It should define, at a minimum,

- The infrastructure resources being consolidated within COT;
- The specific responsibilities being taken by COT staff in the administration and maintenance of these infrastructure resources;
- The specific responsibilities of each agency in relation to the applications and data being housed on these infrastructure resources; and
- The recourse actions to be taken should either entity be non-compliant with the terms and conditions.

Finally, we recommend COT develop a review schedule to ensure SLAs are kept current and relevant. During this review process, COT should ensure agency management is still in agreement with the terms and conditions established within the SLA.

## FINANCIAL STATEMENT FINDINGS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-014: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies (Continued)**

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##### **Management's Response and Planned Corrective Action**

*COT management feels that Executive Order 2012-880, "Regarding the Centralization of Information Technology Infrastructure across the Commonwealth" clearly defines what a consolidated agency is as specified in Section V (below) as that a written policy statement is not needed.*

*V. This Order applies to all Executives Branch Cabinets and all agencies within the Executive Branch except as follows: agencies led by any other statewide elected official; the nine postsecondary education institutions; the Department of Education's services provided to local school districts; the agencies administering the retirement systems; the Kentucky Housing Corporation; the Kentucky Lottery Corporation; the Kentucky Higher Education Student Loan Corporation; and the Kentucky Higher Education Assistance Authority.*

*COT has reviewed and revised the Security Standard Procedures Manual (COT-067) as of August 12, 2016. The manual was renamed the Enterprise Security Standard Process and Procedures Manual (ESSPPM), which provides a comprehensive approach to security planning and execution to ensure that Commonwealth managed assets (hardware, software, and data) are afforded appropriate levels of protection against destruction, loss, unauthorized access, unauthorized change, and disruption or denial of service. COT continues to move forward in its efforts to align Enterprise Policies in accordance with NIST 800-53 as it is stated in CIO-091 Enterprise Information Security Program Policy.*

*As the existing SLA was written by a subcommittee of the Technology Advisory Council (TAC), any revisions will need to be drafted under their supervision and approval. COT expects the agreement to remain high-level and consistent among all Agency partners who are part of the TAC, in that the SLA terms cannot favor any one Agency's business over another. These updates will constitute an effort led by the Office of IT Service Management, with a new draft SLA template expected to be completed by the end of FY 2017.*

*Enterprise IT policy CIO-050 defines which infrastructure resources are to be managed by COT:*

*IT assets that have been purchased by COT and are covered by a COT rated service will be owned and tracked as inventory by COT.*

*IT assets that have been purchased by COT for an agency and are not covered by a COT rated service will be owned and tracked as inventory by the agency that requested the procurement.*

*Any IT asset procured by an agency under delegated one-time procurement authority from COT will be owned and tracked by the agency that requested the procurement.*



**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-014: The Commonwealth Office Of Technology Did Not Update Policies And Procedures To Specifically Address Consolidated Agencies (Continued)**

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**Auditor's Reply**

In order to clarify, we understand the need to have a template SLA document in order to ensure that specific terms and conditions of the agreement are covered for each agency. It is reasonable for some terms to be consistent among all the consolidated agencies. However, the template should be customizable to the requirements and needs of each consolidated agency. Depending on the number of applications an agency uses, the criticality of these applications, the complexity of the networks, and the location of staff, there may be more or less detailed documentation included in the SLA in order to ensure an understanding of how the agency resources will be addressed by COT and the service levels necessary to maintain these resources. Further, there will need to be sufficient detailed information within these customized areas in order for both COT and the agency to understand fully what the responsibilities are of each entity, how the communication of concerns is to be handled, and what the repercussions are of non-compliance by either entity with the agreement.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-015: The Commonwealth Office Of Technology Did Not Properly Manage Enterprise Assets**

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This is a repeat finding. The original finding, 2015-012, can be found in Volume I of the fiscal year 2015 SSWAK. The FY 2016 review determined COT did not properly manage Enterprise assets such as desktops, laptops, and servers. The FY 2016 review revealed the planned implementation of a new ticketing system to address this prior year issue did not occur by the end of fieldwork.

Within the prior year's agency response, COT acknowledged configuration information for infrastructure devices was not being maintained centrally. During FY 2015, this lack of a central repository of configuration information caused the agency to be unable to create a population of devices specifically housing critical agency applications by the end of fieldwork. In order to make this type of information more readily available, COT planned to implement a new ticketing system that would incorporate a centralized configuration management database. The expected implementation of the new ticketing system was in the second or third quarter of 2016. However, as of the end of fieldwork for FY 2016, this implementation had not been completed.

Due to the IT infrastructure initiative (I.3) consolidation, COT has responsibility over machines housing consolidated agency applications and data; however, COT did not maintain sufficient information about these machines in order to be able to readily identify the location of agency applications. The need to properly manage Enterprise assets was originally addressed with COT during FY 2015; however, the agency did not take sufficient action during FY 2016 to remedy this issue.

As a result of the I.3 consolidation, critical machines once managed and maintained at the agency level were removed from their purview and placed under COT's managerial authority. Consolidated state agencies now rely on COT to appropriately manage these assets, which are used to perform daily processing. Assets not properly accounted for and managed could result in inefficiencies at the agency level. This situation could also affect the working relationship between COT and other consolidated agencies.

Inappropriate management of assets can lead to machines being misconfigured and outdated. System misconfigurations that allow unnecessary services can negate other security configurations established on the machine, increase potential security vulnerabilities, and provide enticements for intruders to enter the system. Improperly secured services could allow unauthorized access to sensitive or critical system resources. Further, if a machine is allowed to provide excessive information associated with the machine to an anonymous user, then an intruder could potentially use this information to attempt to gain access to the machine or network. Where there are known vulnerabilities associated with specific product versions, the risk of misuse increases.

Assets are to be managed in such a way that they are kept secure physically and logically. Information about these assets must be readily available to necessary staff and for audit purposes.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-015: The Commonwealth Office Of Technology Did Not Properly Manage Enterprise Assets (Continued)**

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##### **Recommendation**

We recommend COT complete the implementation of the planned ticketing system. Within this new system, COT should maintain documentation of all infrastructure assets that is readily available to staff responsible for the management of assets. This information should include, at a minimum, the machine name, IP address, operating system, platform, IT systems or software housed on the machine, location, and agency owner of the housed IT applications. This information should also be sufficiently searchable in order to provide information to management and auditors in a timely fashion upon request.

##### **Management's Response and Planned Corrective Action**

*COT's ITSM application with accompanying Discovery/CMDB solution was implemented on September 1, 2016. Information about enterprise Configuration Items (CIs) is being detected and updated automatically by a Discovery Agent, which is deployed automatically across all COT-managed subnets, and runs locally on most operating systems. Information about devices which do not use a traditional OS (e.g. switches, routers) may be captured via SNMP, WMI or manual creation of the CI record.*

*Information gleaned by the Discovery Agent and stored in the CI record includes the following (required fields are designated with \*): Display Name\*, Domain, Organizational Unit (Cabinet/Agency to which the CI is attributed), CI Location (based on IP address), Manufacturer, Serial Number, MAC Address, IP Address, Operating System, OS Edition, OS Major Version, OS Minor Version, Service Pack, Total Disk Space, Free Disk Space, % Free Disk Space, Total Memory, Logical Storage, and Login Name (last logged-in user). Additional details regarding the hardware configuration are available for many CI types, and an inventory of installed software, OS patches, commercial application patches, and services is captured for any CIs reporting via the Discovery Agent.*

*This data is currently available in read-only format to all COT employees. The CI record also displays Audit Details indicated the date/time of creation, the source of the information, and the last date the Discovery Agent reported. COT does plan to mature in its practical use of this data over time. Associating CIs with Agency applications will be a long and arduous process, and will require constant upkeep. The subject matter experts with the knowledge necessary to perform this work are also tasked with operational duties. Without dedicated resources, we expect the initial CI mapping effort to continue at least 3 years.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-016: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Procedures**

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The fiscal year (FY) 2016 audit of the Commonwealth Office of Technology (COT) controls revealed weaknesses surrounding information technology (IT) asset inventory. Specifically, testing revealed instances where Finance and Administration Cabinet (Finance) policies were not adhered to and agency procedures were not consistently applied.

Finance has published a specific policy in relation to the maintenance of inventory of non-expendable assets. The Finance policy, FAP 120-20-01 *Personal Property and Vehicle Inventories*, expressly states any fixed asset with an original cost of \$500 or more and a useful life of more than one year should be recorded in a fixed asset system. According to Finance management, COT has been granted permission to use an internal inventory tracking system to capture this information. However, for all non-expendable assets with an original cost of \$5,000 or more, these assets must be recorded within the enhanced Management Accounting and Reporting System (eMARS). COT must reconcile the information from their internal system to eMARS, annually.

Several exceptions were noted during the test performed against the information produced from COT's internal tracking system and a report of assets identified as being the responsibility of COT in eMARS. The results of these tests identified the following:

- A comparison of all assets with a cost of \$5,000 or more within COT's tracking system and eMARS associated with COT revealed:
  - Two hundred and forty-seven records recorded in COT's tracking system, with a total cost of \$3,895,476, that were not recorded in eMARS associated with COT.
  - Four hundred and seventy-nine records recorded in eMARS, with a total cost of \$32,646,951, were not recorded in COT's tracking system.
  - Fourteen records were matched between COT's tracking system and eMARS by the asset number; however, the cost did not match. These records reflected a total cost of \$173,885 less in COT's tracking system than in eMARS.
  - Three components records within eMARS related to asset numbers identified within both eMARS and the COT's tracking system, but were not specifically included in the tracking system. These components had a total cost of \$50,965.
- According to FAP 120-20-01, there are specific fields of data that are to be captured for all non-expendable assets with a cost of \$500 or more. One of these required fields is the "state property identification tag number." A review of the information produced from COT's tracking system for completeness, identified 350 records, or 0.69 percent of the 50,845 records within the listing, where the 'Asset Tag #' field was not populated. The total cost of these items was \$683,083.
- According to COT procedures, all IT assets included in the inventory are to be identified with an 'eMARS Insurance Code' of 'EDP1' for Computer Hardware or 'IM7' for Laptops. A review of the information produced from COT's tracking system identified 7,527 records, or 14.8 percent of the 50,845 records within the listing, where the 'eMARS Insurance Code' value was not one of the expected values. These records are associated with \$9,385,597 in assets, or 15.12 percent of the total cost of \$62,064,112 for all assets in the listing.

## **FINANCIAL STATEMENT FINDINGS**

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-016: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Procedures (Continued)**

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Also, during the review of FY 2016 insurance coverage for COT inventory through the Division of State Risk and Insurance Services (State Risk), there were multiple locations itemized on the policy that were specifically identified as Kentucky Transportation Cabinet (KYTC) equipment totaling \$9,231,398. It was explained that these locations and coverage had been established during a previous consolidation approximately ten years ago. In support of the FY 2016 insurance coverage, COT only provided State Risk with the report produced from their internal tracking system. Review of the report produced from COT's tracking system found there were 1,528 records totaling \$1,120,703 related to KYTC locations.

The Executive Order (EO) 2012-880 transferred the responsibility for and ownership of IT infrastructure from specific individual agencies to COT. The original plan for this consolidation initiative was a three year timeframe. However, at the end of FY 2016 fieldwork, COT has not completed the transition of infrastructure for all consolidated agencies, which affects how inventories are accounted for. Further, there has not been a full reconciliation of COT's tracking system to eMARS.

If IT assets are not properly inventoried and managed as established by Finance policy, the risk increases of misstatement of assets reported within the Commonwealth's Comprehensive Annual Financial Report. Further, if the IT asset inventory does not completely and accurately reflect the assets owned by the agency, then insurance coverage purchased to cover this inventory may be inappropriate or inadequate should a situation occur where a claim needs to be made.

According to the Finance and Administration Cabinet policy (FAP) 120-20-01 Personal Property and Vehicle Inventories:

1. Each budget unit shall maintain a current fixed asset record of equipment having an original cost of five hundred dollars or more and a useful life of greater than one year...
  - b. Agencies shall enter records into the fixed asset system for non-expendable property that promotes financial reporting, safeguarding of assets and adequate insurance ...
3. Personal Property to be Recorded:
  - a. All non-expendable property valued at \$500 or more shall be recorded as a line item. This record shall include agency number, state property identification tag number, make, description, model number, serial number, quantity, location by building and cost.

Although permission can be granted by Finance for an agency to use an internal system for tracking the inventory of non-expendable assets of \$500 or more, those assets with a cost of \$5,000 or more are required to be recorded in eMARS and an annual reconciliation of this information must be completed.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-016: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Procedures (Continued)**

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##### **Recommendation**

We recommend COT complete a full reconciliation of assets between their internal tracking system and eMARS. Specifically, the following procedures should be completed:

- All assets with a cost of \$5,000 or more in COT's tracking system should be traced to the eMARS system.
  - If there are any discrepancies for an asset in the data values between the tracking system and eMARS, COT should make any changes necessary to ensure the systems are in agreement.
  - If there are any assets in the tracking system not in eMARS, COT should first determine whether the asset is still a valid item to be included in the inventory. If so, then COT should add this item to eMARS. If not, COT should make changes in the tracking system to reflect the removal.
  - If it is found that there are multiple components for an asset number in eMARS, but not all of these components are in the tracking system, COT should first determine whether the component is still a valid item to be included in the inventory. If so, COT should add this item to the tracking system. If not, COT should make changes in both the tracking system and eMARS to reflect the removal.
- All assets with a cost of \$5,000 or more in eMARS should be traced to COT's tracking system.
  - If there are any assets in eMARS that are not in the tracking system, COT should first determine whether the asset is a valid item to be included in the eMARS inventory. If so, then COT should add this item to the tracking system. If not, COT should make changes in eMARS to reflect the removal.
- The inventory data within COT's tracking system should be reviewed to ensure that it is complete and valid.
  - If the 'Asset Tag #' field is not populated or is not a valid value, COT should first investigate the asset to determine what the value should be. Then COT should update this information within the tracking system.
  - If the 'eMARS Insurance Code' field value is any value other than 'EDP1' or 'IM7,' COT should first investigate the asset to determine what the value should be. Then COT should update this information within the tracking system.

Once this review has been completed, a similar review should be performed at least on an annual basis to correspond with the Finance requirements.

Finally, COT should ensure all staff involved in the recording and management of IT assets understands how to properly and completely record asset information within both COT's tracking system and eMARS.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-016: The Commonwealth Office Of Technology Did Not Consistently Follow Asset Inventory Procedures (Continued)**

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**Management's Response and Planned Corrective Action**

*After reviewing the detailed information provided COT has identified the following:*

- 1. Of the 247 records mentioned above, many of were recognized as software license keys. The fingerprint machines listed are not COT equipment, but owned by another agency. COT feels these items are not part of COT inventory and would not be recorded in COT's tracking system. The items should not be included.*
- 2. 14 records – COT acknowledges these items as component issues and will work on correcting.*
- 3. 3 records – COT acknowledges these items as component issues and will work on correcting*
- 4. Upon reviewing the records of Asset Tag #'s not being populated, COT was able to identify many of the items as monitors. COT did not track individual monitors during the time of the audit as they were considered part of the PC unit. COT began tracking monitors independently during FY 2017.*
- 5. Insurance Codes – “UN” implies the item is uninsured. COT does not insure any leased equipment, as the vendor provides replacement in the event of damage or loss. “TI” is used for telephone equipment and an appropriate insurance code to be utilized. “BPP” is used for printers and other items that are not moved between locations.*
- 6. A full physical inventory will take place in calendar year 2017, during which a comparison and reconciliation between PPATS and eMARS will take place.*

*COT will conduct a complete inventory and reconciliation of assets between PPATS and eMARS no later than July 1, 2017. All assets with a cost of \$5,000 or greater will be tracked in both systems. All missing serial numbers and asset tags will be entered during the 2017 physical inventory of assets. Asset Management Inventory procedures will be updated no later than January 15, 2017, and will define proper insurance code use. Not all hardware is required to be IM7 or EDPI.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-017: The Department Of Corrections Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information**

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This is a repeat finding. The original finding, 2015-013, can be found in Volume I of the fiscal year 2015 SSWAK. The fiscal year (FY) 2016 audit revealed weaknesses in the Department of Corrections (DOC) procedures regarding the security of confidential and sensitive data. DOC is required to follow Commonwealth Office of Technology (COT) enterprise policies and standards, and there are several policies and procedures that address data protection. Situations were identified where DOC did not follow these policies to ensure all data was fully protected. However, during the last year, DOC has begun work with COT to identify a plan for enhancing the security over certain types of data.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with DOC.

DOC is aware of COT's data protection policies; however, the consolidation efforts related to the Information Technology Infrastructure Initiative with COT are still ongoing, and roles and responsibilities of each agency have not been clearly or completely defined.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors.

Sensitive or confidential data must be protected from unauthorized users or exposure to the general public. The agency should completely and consistently comply with all applicable COT enterprise policies and standards related to protection of sensitive and confidential data received, housed, and transmitted by the agency. Specific policies and standards have been discussed with the agency.

#### **Recommendation**

We recommend DOC management ensure all data received, housed, or transmitted, is reviewed to determine whether it should be classified as confidential and sensitive based on the COT enterprise standards. Once this determination has been made, data classified as confidential or sensitive should be sufficiently protected in compliance with COT enterprise policies and standards. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority. Work plans established with COT to enhance security over certain confidential and sensitive data should be completed. Further, management should provide training to staff, as needed, to ensure policies are consistently applied.

#### **Management's Response and Planned Corrective Action**

*The Department of Corrections is currently in talks with the Commonwealth Office of Technology to make sure all sensitive data is protected as set forth in the enterprise policies and standards.*

*The agency is working with COT to come up with a plan. Once the plan is in place we will be able to come up with a proper timeframe on how long it will take to complete this action. DOC has supplied COT with a list of all equipment that could house confidential and sensitive data.*



## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-018: The Department Of Workforce Investment Failed To Prevent Claimants From Receiving Benefits When Eligibility Review Requirements Were Not Met**

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As part of the process for requesting Unemployment Insurance (UI) benefits, claimants are required to complete an Eligibility Review (ER). ERs give the Department of Workforce Investment Office of Employment and Training (DWI-OET) an opportunity to review claimant job contacts and assist with job seeker services. As required by 787 KAR 1:090, ERs must be completed when directed in order to receive benefits.

The first ER must be completed in-person at a Kentucky Career Center office and is scheduled six weeks from the initial claim. One claimant did not complete an ER until 30 weeks after the initial claim and therefore was ineligible to receive UI benefits. DWI-OET personnel were able to override system controls allowing the claimant to improperly continue receiving UI benefits.

As identified in prior year finding 2015-058, DWI-OET failed to ensure UI claimants were registered for Employment Services (ES) prior to receiving UI benefits in accordance with state laws and regulations. DWI-OET indicated in its prior year response and corrective action plan that Information Technology (IT) costs and reduced administrative funds present a challenge to fully integrating its systems which would provide an automated control, potentially resolving the issue. The required ER within six weeks of the initial UI claim serves as a manual compensating control implemented by DWI-OET to ensure all UI claimants are also registered for ES. The failure in the design and implementation of the compensating control provides the opportunity for claimants to receive benefits without registering for ES.

DWI-OET does not have an internal control process in place for monitoring and identifying potential claimants who failed to complete the required ER. If a claimant fails to attend the in-person ER, Kentucky Electronic Workplace for Employment Services (KEWES) will generate a letter notifying the claimant of their failure to comply with established requirements, and records a code in the claimant's records in Kentucky Network (KYNET) known as a STOP code. The claimant will be unable to receive further benefits until an ER is completed and the STOP is removed in KYNET. Internal controls are inadequately designed as local employment office staff have the ability to override the STOP within KYNET and force claim payments through. As a result of not having adequate internal controls to ensure eligibility requirements are met in accordance with state laws and regulations, the claimant identified received UI benefits without being eligible, resulting in \$3,982 in questioned costs.

42 U.S.C. § 503, states, in part,

- (a) The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State, approved by the Secretary of Labor under the Federal Unemployment Tax Act [26 U.S.C. 3301 et seq.], includes provision for-

## FINANCIAL STATEMENT FINDINGS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-018: The Department Of Workforce Investment Failed To Prevent Claimants From Receiving Benefits When Eligibility Review Requirements Were Not Met (Continued)**

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- (1) Such methods of administration (including after January 1, 1940, methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Secretary of Labor shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due.

KRS 341.350, Conditions of qualification for benefits, states, in part,

An unemployed worker shall, except as provided in KRS 341.360 and 341.370, be eligible for benefits with respect to any week of unemployment only if:

- ...(3) (a) He has registered for work with respect to such week in accordance with regulations prescribed by the secretary; and
- (b) He participates in reemployment services, such as job search assistance services, if pursuant to a profiling system established by the secretary, he has been determined to be likely to exhaust regular benefits unless:
1. The claimant has completed the services to which he is referred; or
  2. There is justifiable cause for the claimant's failure to participate in the services. For the purpose of this section, "justifiable cause" shall be interpreted to mean what a reasonable person would do in like circumstances.

787 KAR 1:090- Unemployed worker's reporting requirements, states, in part,

Section 1. Registration for Work. (1) An unemployed worker shall be registered for work with a state employment service before he is eligible to receive benefits. A registration shall be considered filed if the unemployed worker completes the registration process...

Section 5. Eligibility Review. The secretary may require an unemployed worker claiming benefits to report for the purpose of continued benefit eligibility review as a condition for payment of benefits. The requirement and interval for eligibility review shall be determined by:

- (1) The worker's classification as established in Section 1(2) of this administrative regulation;
- (2) The worker's individual employment and earning history; and
- (3) The local labor market.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-018: The Department Of Workforce Investment Failed To Prevent Claimants From Receiving Benefits When Eligibility Review Requirements Were Not Met (Continued)**

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##### **Recommendation**

We recommend DWI-OET improve policies, procedures, and internal controls to ensure ERs are performed as required in accordance with state and federal laws and regulations. DWI-OET should strengthen system controls to limit access and prevent staff from having the ability to circumvent applied STOP payments within KYNET when claimants fail to meet mandated requirements. We also recommend DWI continue to improve policies and procedures to ensure required UI claimants are properly registered for ES before they receive UI benefits to ensure compliance with state and federal UI laws and regulations.

##### **Management's Response and Planned Corrective Action**

*The failure to capture the need for ES registration resulted from the fact that the recently introduced Focus system is not fully integrated with the EKOS system. The historical systems utilized by DWI, KEWES and Eligibility Review Interview, functioned as expected and caused the group classifications to be updated as when the separation change from group A to B occurred. With the recent implementation of the Focus software, however, there was not full integration between the old and new systems. Procedural changes had been implemented to ensure full registration within the Focus system itself, but that was not integrated to carry over to the Employ Kentucky Operating System (EKOS).*

*Historically, an initial Employ Kentucky Operating System (EKOS) registration satisfied the requirement as work search information is captured during the UI claim filing. This registration process is required for the completion of a UI claim and is embedded within the application. The change in procedure, requiring a full registration with work history and resume information in Focus Career has resulted in the need for additional manual checks for each registration. New procedures have been promulgated to the field to protect against unauthorized benefits being paid. In this situation those procedures were not followed. The individual responsible will receive a documented verbal warning. In addition, OET will visit and retrain the entire office on the correct procedure.*

*OET has explored the cost of a full integration, however IT costs and reduced administrative funds present challenges for implementation. Until such time a full integration of the two independent systems is achieved we must continue to depend upon the local office staff to ensure registration and full Career Center services.*

*OET will continue to provide training and regular reinforcement of existing policy and procedure, currently found in published manuals. Furthermore, OET remains committed to review the combination of systems and policies that support the initial claims process.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-019: The Department Of Workforce Investment Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information**

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This is a repeat finding. The original finding, 2015-016, can be found in Volume I of the fiscal year 2015 SSWAK. Our fiscal year (FY) 2016 audit revealed weaknesses in the Department of Workforce Investment (DWI) procedures regarding the security of confidential and sensitive data. DWI is required to follow Commonwealth Office of Technology (COT) enterprise policies and standards, and there are several policies and procedures that address data protection. Situations were identified where DWI did not follow these policies to ensure all data was fully protected. However, during the last year, DWI has worked with COT to identify a plan for enhancing the security over certain types of data.

Detailed information that could increase the risk of agency security being compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with DWI.

DWI is aware of COT's data protection policies; however, the consolidation efforts related to the Information Technology Infrastructure Initiative with COT are still ongoing, and roles and responsibilities of each agency have not been clearly or completely defined.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to claimants, employees, or vendors.

Sensitive or confidential data must be protected from unauthorized users or exposure to the general public. The agency should completely and consistently comply with all applicable COT enterprise policies and standards related to protection of sensitive and confidential data received, housed, and transmitted by the agency. Specific policies and standards have been discussed with the agency.

**Recommendation**

We recommend DWI management ensure all data received, housed, or transmitted is reviewed to determine whether it should be classified as confidential and sensitive based on the COT enterprise standards. Once this determination has been made, data classified as confidential or sensitive should be sufficiently protected in compliance with COT enterprise policies and standards. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority. Current work plans established with COT to enhance security over certain confidential and sensitive data should be completed. Further, management should provide training to staff, as needed, to ensure policies are consistently applied.

**Management's Response and Planned Corrective Action**

*Education & Workforce Development will follow COT Enterprise Standards to ensure confidential or sensitive information is sufficiently protected. The data will be reviewed to determine its classification. EDU will work with COT to provide training to staff to ensure policies are consistently applied.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-020: The Department Of Workforce Investment Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act**

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Our fiscal year (FY) 2016 audit of the Department of Workforce Investment (DWI) revealed an instance where, although a potential information security incident was identified, the reporting requirements outlined in the Personal Information Security and Breach Investigation Procedures and Practices Act were not followed. Further, while the agency had adopted the Commonwealth Office of Technology (COT) Enterprise Policy CIO-090 *Information Security Incident Response Policy*, DWI had not developed internal security incident reporting procedures.

While performing a vulnerability assessment against DWI machines, an external vendor identified a potential information security incident. Specifically, a server was found to contain publicly-accessible files that housed sensitive information such as Social Security numbers, names, and addresses. Based on the naming of these files, the vendor believed these files could have been publicly available since 2013. The vendor informed DWI of the incident on April 1, 2015, and explained how to resolve the issue. Further, they instructed DWI to consider any laws or regulations that may require notification to individuals that could have potentially had their information exposed. The APA was not notified of this breach; therefore, additional information was requested from DWI management concerning the incident. DWI stated the server logs did not show any access of files; however, it was noted by DWI staff that the server logs did not cover the entire period of potential exposure to the public. DWI management did not have any additional documentation on file to support their review at the time in which the incident was noted.

We are aware DWI is working with COT to develop internal security breach procedures; however, at the time fieldwork was completed, these procedures had not been finalized.

DWI management did not specifically follow the procedures outlined within the CIO-090 *Information Security Incident Response Policy* and the Personal Information Security and Breach Investigation Procedures and Practices Act when a potential data breach was identified.

Failure to follow information security incident reporting procedures is a noncompliance with the Personal Information Security and Breach Investigation Procedures and Practices Act. This increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public without the appropriate remediation and notification of the incident.

The Personal Information Security and Breach Investigation Procedures and Practices Act is found at KRS 61.931 to KRS 61.934. KRS 61.933(1)(a), which became effective January 1, 2015, states:

Any agency that collects, maintains, or stores personal information that determines or is notified of a security breach relating to personal information collected, maintained, or stored by the agency or by a nonaffiliated third party on behalf of the agency shall as soon as possible, but within seventy-two (72) hours of determination or notification of the security breach:

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-020: The Department Of Workforce Investment Did Not Adhere To The Reporting Requirements Of The Personal Information Security And Breach Investigation Procedures And Practices Act (Continued)**

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1. Notify the commissioner of the Kentucky State Police, the Auditor of Public Accounts, and the Attorney General. In addition, an agency shall notify the secretary of the Finance and Administration Cabinet or his or her designee if an agency is an organizational unit of the executive branch of state government; notify the commissioner of the Department for Local Government if the agency is a unit of government listed in KRS 61.931(1)(b) or (c) that is not an organizational unit of the executive branch of state government; notify the commissioner of the Kentucky Department of Education if the agency is a public school district listed in KRS 61.931(1)(d); and notify the president of the Council on Postsecondary Education if the agency is an educational entity listed under KRS 61.931(1)(e). Notification shall be in writing on a form developed by the Commonwealth Office of Technology.

After the investigation is complete, the agency must notify the same parties whether the misuse of personal information has occurred.

**Recommendation**

We recommend DWI continue to work with COT to develop internal security breach procedures specific to the agency. During this process, we recommend DWI review KRS 61.931 through KRS 61.934 regarding the handling of potential information security incidents to ensure the internal procedures are in line with the statutes. DWI management should ensure that all steps within the security breach process are completed as designed. Specifically, if a potential breach is identified, the KSP, APA, Attorney General, and Finance Secretary should be notified within 72 hours. After investigating the incident, DWI should inform these agencies whether the misuse of personal information has occurred. If a breach has occurred, DWI should follow the procedures regarding notifying individuals impacted. Any work conducted by DWI staff to review a security breach should be thoroughly documented in a log to support actions taken to communicate and remedy the situation. Further, all supporting documentation developed to identify and remediate the situation should be retained.

**Management's Response and Planned Corrective Action**

*The Administrative & Program Support Branch will adhere to COT's Security Incident policy - CIO-090(created 1/1/15): Information Security Incident Response Policy. We have developed security breach procedures (EDU-F01) that have been posted to our website effective 5/31/16.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-021: The Department Of Workforce Investment Did Not Properly Secure Network Shares**

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The fiscal year 2016 audit of the Department of Workforce Investment (DWI) revealed an instance in which three Network File System (NFS) shares were not properly secured, allowing for unrestricted access to files that contained sensitive information to anyone on the agency's network. While performing a vulnerability assessment against DWI machines in April 2015, an external vendor identified two of these shares allowed read only access, but contained sensitive information. The third share additionally allowed write access. Login credentials were not required of the vendor to access these shares.

The vendor recommended DWI implement an authorization policy to determine how the agency should grant access to information. Specifically, it was recommended that DWI implement a plan of action to begin identifying data, classifying data, and determining how to begin restricting access to data to ensure only personnel that require access to data are given the ability to access it. As of the end of the FY 2016 audit fieldwork, agency management confirmed no actions had been taken by the agency to address the NFS share recommendations.

DWI staff confirmed that the NFS exposure was all on the same network segment. Since the Kentucky Electronic Workplace for Employment Service (KEWES) application is the only thing residing on this network segment and because it is located behind a firewall, there was no exposure of sensitive information to the public. Therefore, this incident was not considered reportable in relation to the Personal Information Security and Breach Investigation Procedures and Practices Act.

DWI did not properly configure their NFS shares to restrict access. Users with access to the DWI network could delete, modify, or download critical data, which could then be used for inappropriate reasons and potentially expose sensitive information to the internal network.

Only necessary and required users should have access to services, particularly those services containing potentially sensitive information. Within the CIO-091 Enterprise Information Security Program, the Commonwealth Office of Technology has established the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations, as the overarching framework for guidance on matters affecting information security for the Commonwealth. According to the NIST SP 800-53 Revision 4 section titled 'AC-6 Least Privilege,' "[T]he organization employs the principle of least privilege, allowing only authorized accesses for users (or processes acting on behalf of users) which are necessary to accomplish assigned tasks in accordance with organizational missions and business functions."

Further, according to the NIST SP 800-123 *Guide to General Server Security*, organizations should use secure protocols that can provide encryption of both passwords and data such as Secure Shell (SSH) or Secure Hypertext Transfer Protocol (HTTPS). Organizations should not use less secure protocols (e.g., Telnet, File Transfer Protocol (FTP), NFS, or HTTP) unless absolutely required and tunneled over an encrypted protocol, such as SSH, Secure Socket Layers (SSL), or Internet Protocol Security (IPsec).

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-021: The Department Of Workforce Investment Did Not Properly Secure Network Shares (Continued)**

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**Recommendation**

We recommend DWI ensure the three NFS shares identified within the external vulnerability assessment are properly secured. The sensitive information found on the NFS shares should be reviewed and, if no longer needed, should be removed. Also, we recommend DWI develop and implement an authorization policy establishing a process to identify, classify, and appropriately restrict access to DWI data. As part of this policy, DWI should document a baseline of users that require access to DWI systems as well as the role or security permissions granted to each user. This listing should be maintained and monitored on a regular basis to ensure only authorized staff continue to have access to DWI resources.

**Management's Response and Planned Corrective Action**

*The Administrative & Program Support Branch is working with COT to gain access needed for our branch to document a baseline of users with access to DWI systems. This will allow us to maintain and ensure that only authorized staff have access to DWI resources.*

*Network Share (NFS)*

*One of the three shares identified has been decommissioned.*

*The second share is being investigated.*

*The Third share is a sand box and contains no sensitive information.*

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**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-022: The Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2016 School District SEEK Payments**

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This is a repeat finding. The original finding, 2015-025, can be found in Volume I of the fiscal year 2015 SSWAK. During the audit of the Kentucky Department of Education's (KDE) Support Education Excellence in Kentucky (SEEK) funding program, the basis utilized in calculating school district SEEK payments for the first quarter of fiscal year (FY) 2016 was noncompliant with the calculation method required by Kentucky Revised Statutes (KRS) 157.410. Consequently, three of the school districts tested were underpaid a total of \$90,199 during the first quarter of FY 2016 and twelve of the school districts tested were overpaid by a total of \$3,007,932 during the first quarter of FY 2016.

While the results of testing indicate non-compliance with the funding procedure for the first quarter, testing supported the school districts received the correct total of SEEK funds as calculated by the SEEK formula, at the end of FY 2016. Therefore, no financial adjustment is necessary. Further, KDE attempted to have legislation passed to revise the SEEK payment requirements to the payment practice currently in place with House Bill 455. However, the bill did not pass in the prior legislative session. This has been a recurring finding since the FY12 audit.

The first quarter of FY 2016 SEEK payments to school districts were calculated based on the FY 2016 forecasted SEEK total. Calculation of the SEEK payments for the first quarter should, however, be based upon the prior year's allotment, reduced by any capital outlays and/or the SEEK nickel state equalization. The SEEK payments for the remaining quarters should be based upon 1/12<sup>th</sup> of the current year tentative SEEK total.

KDE suggests that the current calculation method is the better method for determining SEEK payments. The basis for this is that the methodology utilizes the most recent data which minimizes the fluctuation in monthly payments between the forecast and the tentative calculations required by statute. Therefore this methodology results in a more reliable revenue stream for the various school districts according to KDE.

As a result of using this forecast payment calculation rather than the SEEK formula required by statute, three of the school districts were collectively underpaid a total of \$90,199 and twelve school districts were collectively overpaid a total of \$3,007,932 during the first quarter. Total funds calculated for each district were correctly provided to each district at year end as determined by the SEEK formula.

KRS 157.410 states, "On July 1, August 1, and September 1, of each fiscal year, one-twelfth (1/12) of the prior year's allotment minus the capital outlay shall be paid each school district. On the first of each month thereafter until the final calculation is completed, one-twelfth (1/12) of each district's share of the tentative calculation minus capital outlay shall be distributed."

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-022: The Department Of Education Was Not Compliant With KRS 157.410 In The Calculation Of First Quarter Fiscal Year 2016 School District SEEK Payments (Continued)**

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**Recommendation**

We recommend KDE carefully review the payment calculation procedures and pay SEEK funds in accordance with all state statutes.

Additionally, given the current practice for calculating the SEEK payment is based on the forecasted SEEK amount, KDE should continue efforts to affect change in the law for calculating the amount in order to comply with statutes.

**Management's Response and Planned Corrective Action**

*KDE will thoroughly review the payment calculation procedures and all statutes and regulations related to SEEK payments to districts. Upon completion of the review, we will prepare language to revise the affected statutes and advocate to the legislature to make the revisions.*

*We understand that our current process does not specifically adhere to the statutes, however, KDE's approach results in a practical payment methodology to allow school districts to operate in an efficient and effective manner throughout the year. In the subsequent three quarters of FY 2016, the aforementioned districts' payments were adjusted either upward or downward, depending on the results after all actual data was received and utilized in the SEEK calculations, and this resulted in the total annual SEEK amount distributed by the end of the year to be accurate as a whole.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-023: The Department of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements**

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This is a repeat finding. The original finding, 2015-028, can be found in Volume I of the fiscal year 2015 SSWAK. During the Fiscal Year (FY) 2016 audit of the Kentucky Department of Education (KDE), we determined formal procedures had not been developed to ensure the Kentucky Student Information System (KSIS) vendor complies with established contract terms and requirements.

Responsibilities associated with KSIS servers have been defined within the Support Service Level Plan (SLA), which was revised in February 2016. KDE and the vendor are jointly responsible for securing and maintaining these devices. KDE is responsible for providing and securing the required network infrastructure. The vendor is specifically responsible for providing application, server hardware, and server operating system (OS) level support to KDE and all Kentucky school districts. This includes providing security related OS patches and antivirus software with the most current virus definitions or signatures. School districts must collect the student data, but are only responsible to ensure vendor servers are physically secured. KDE and each of the 173 Kentucky school districts must also provide name and contact information of onsite representatives that can assist the vendor with technical issues at the state and local levels.

KDE is responsible for monitoring vendor performance based on metrics, or requirements, defined within the SLA. KDE and school districts are responsible for identifying and reporting case issues associated with the application to the vendor. The vendor provides KDE with a daily detailed case report showing all cases submitted by KDE or a Kentucky school district, excluding cases with a closed status and date resolved greater than 24 months prior to the current date. A KDE staff member reviews the report each day and shares information with appropriate Enterprise Data team members to determine the follow up required.

All regulated items are categorized into Report Types, which defines the submission timeframes surround the regulated item. Based on a review of the daily detailed case report dated March 17, 2016, which contained 106 closed and regulated items, the auditor determined several fields, including Report Type and Date Resolved, were not populated for numerous cases. Discussions with KDE revealed there are several reasons why a case would not be resolved, one of which being when a single customer incident results in the need for development in multiple areas. This allows the single case to be related to multiple bugs/issues that are developed on different timelines. KDE tracks some of the items and bugs as one incident, while others are separated into different tickets. Review of the daily detailed case report found numerous items in which the cases appeared closed, but were reopened at a later date in order to address an associated bug or enhancement. This type of reporting will not allow KDE to properly track all incidents for compliance with established terms and agreements. In response to a request for additional information concerning potential cases that did not appear to follow requirements, the agency explained several incidents were incorrectly labeled as a regulated item. Also, it was noted there were several incidents determined as not resolved by year end, but were still labeled as 'SLA Compliant.'

Furthermore, the vendor enters a 'Yes' or 'No' value into the field labeled 'SLA Compliant,' which is found on the daily detailed case report. Weekly status meetings are held between KDE and KSIS vendor staff to discuss current cases. However, KDE has not documented their internal review process to show that all cases were reviewed for compliance without the vendor's involvement.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-023: The Department of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)**

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The vendor also provides KDE with a yearly case report reflecting SLA compliance. It was anticipated that by filtering the daily detailed case report to view only closed and regulated items, the auditor would obtain the population of cases found on the year-end report; however, this was not the case. Only 26 of the 106 closed and regulated cases were reported on the State Fiscal Year (SFY) 2015 case report. These are the only cases in which compliance was measured. A reconciliation between the daily detailed case report and the year-end report is not being documented to ensure all appropriate cases are being reflected on the annual report.

Finally, the KSIS vendor provides KDE with access to a dashboard tool that allows monitoring of services provided by the vendor to ensure they are fulfilling their contractual obligations as it relates to ongoing operations and performance. However, KDE management does not routinely review the information presented in this tool. Also, the use of this tool has not been documented in a formal process document.

Prior to the end of fieldwork, KDE developed a draft of SLA Compliance Review Procedures. These procedures were not finalized prior to fiscal year end.

Similar issues were originally identified and reported to KDE management during our FY 2014 audit. Since that time, KDE has expressed confidence in the security provided by their cloud service vendor. During our FY 2015 audit, KDE disagreed with our recommendations. Based on our review of the responses provided to the prior year finding, we believe KDE thinks the auditors take issue with the fact that KSIS services are cloud based; however, the primary issue of concern is the lack of documentation that explains the process KDE uses to monitor and review contract compliance. While some improvements were noted in that KDE has drafted internal review procedures, this was not completed prior to year-end. Also, KDE did not document their determination of compliance separately from the vendor. As a result, KDE has not taken sufficient actions to completely remediate the noted weaknesses.

Inconsistent application of formal contract monitoring procedures increases the possibility of KDE not obtaining adequate value for the contract services being provided.

Support or service level agreements allow the agency a benchmark in which to measure performance. These agreements are an excellent tool that can be used to validate performance, help management expectations, and improve communications. SLAs typically contain one or more metrics with quantitative outcomes and include management elements for reporting and reviewing. Anything that falls outside of the established terms or metrics results in a breach of contract and could result in reduced payments, rebates, or service cancellations.

In every agency, management is responsible for establishing goals, evaluating progress, and ensuring results. Regular managerial level reviews should be conducted to ensure a vendor is complying with the defined metrics and terms of a contract. Since these reviews establish and evaluate the services used to meet the agency's objectives, they are considered a form of internal control. Therefore, documentation of the reviews should include who the participants are, the goal of the review, the decisions made, the proposed initiatives and changes that resulted, and the intended outcomes of initiatives and changes.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-023: The Department of Education Did Not Ensure The Student Information System Vendor Met All Contractual Requirements (Continued)**

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##### **Recommendation**

We recommend KDE expand and finalize their SLA Compliance Review Procedures to ensure the vendor is held accountable for contract terms and metrics established. The monitoring process should clearly show resolution actions taken by the vendor and the dates these actions were performed. Furthermore, KDE should document whether actions taken involving the reported cases are compliant with the defined contract metrics.

We further recommend KDE either expand the daily detailed case report or develop a new method for documenting their internal review process of cases submitted to and logged by the KSIS vendor. This documentation should reflect KDE's determination of compliance to ensure the KSIS vendor has met the resolution percentages defined in the SLA. KDE should obtain further clarification from the vendor as to how they create their year-end report, which is primarily used to determine compliance and award credits.

We also recommend KDE begin using the Dashboard tool made available by the KSIS vendor to ensure they comply with operational and performance metrics established in the SLA. This review should also be documented within a formal procedures document, which will assist KDE during the evaluation period for contract renewal.

##### **Management's Response and Planned Corrective Action**

*KDE has opened discussions with the vendor to improve the SLA Compliance Review Procedures, as stated during the APA fieldwork.*

*The current procedures are effective at tracking and ensuring issues raised by KDE and districts are addressed, but the report is not simple to review. For instance, KDE may submit a request as a convenient 'place-holder' well before the action in the request is required to be completed. The report, however, does not allow a completion date to be selected and instead simply starts a countdown. This results in some requests indicating "out of compliance," when, in fact, they complete the work as required by the SLA. As always, KDE is willing to meet with the Auditor for additional clarification and an exchange of ideas on this topic.*

*Because the daily detailed care report is a vendor-created and supplied document for their use, KDE will examine new methods for documenting internal review processes.*

*KDE will obtain clarification from the vendor regarding the year-end report to make sure KDE and the vendor are in alignment regarding expectations of report contents.*

*KDE will review the dashboard tool and determine if it adds sufficient value to be added into a formal process.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-024: The Department Of Education Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information**

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This is a repeat finding. The original finding, 2015-027, can be found in Volume I of the fiscal year 2015 SSWAK. The fiscal year (FY) 2016 audit revealed weaknesses in the Kentucky Department of Education's (KDE) procedures regarding the security of confidential and sensitive data. Pursuant to KRS 42.726, the Commonwealth Office of Technology (COT) has been given the duty of developing, implementing, and managing strategic information technology directions, standards, and enterprise architecture for all executive branch cabinets and agencies. Therefore, KDE is required to follow COT enterprise policies and standards, and there are several policies and procedures that address data protection. Situations were identified where KDE did not follow these policies to ensure all data was fully protected. Further, while KDE expressed that the Enterprise Data Dictionary (EDD) upgrade project has been reported to the Data Governance Committee, KDE has not made progress on rewriting the EDD.

KDE, Kentucky school districts, and external vendors are jointly responsible for properly securing KDE's legacy systems containing enterprise data. KDE has provided a publicly available website containing information regarding federal and state data security standards for training and awareness purposes. However, these documents and presentations do not address all necessary aspects of the COT enterprise standards concerning the overall security of data. These documents and presentations do not provide specific guidelines or requirements for the agency, Kentucky school districts, or vendors on how to follow the COT standards.

Detailed information that could potentially increase the risk of agency security being compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with KDE.

KDE is aware of COT's data protection policies. However, KDE has not fully established or implemented additional security measures in policy to ensure sensitive or confidential data, at rest or housed on enterprise systems, maintained by KDE, Kentucky school districts, and vendors was protected in a manner that addresses certain security related Commonwealth standards. This situation has been addressed with the agency since FY 2014.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors.

Sensitive or confidential data must be protected from unauthorized users or exposure to the general public. The agency should completely and consistently comply with all applicable COT enterprise policies and standards related to protection of sensitive and confidential data received, housed, and transmitted by the agency. Specific policies and standards have been discussed with the agency.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-024: The Department Of Education Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information (Continued)**

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##### **Recommendation**

We recommend KDE management ensure all data received, housed, or transmitted, is reviewed to determine whether it should be classified as confidential and sensitive based on the COT enterprise standards. Once this determination has been made, data classified as confidential or sensitive should be sufficiently protected in compliance with COT enterprise policies and standards. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority. Management should provide training to staff, as needed, to ensure policies are consistently applied. Further, KDE management should complete the on-going rewrite of the EDD.

##### **Management's Response and Planned Corrective Action**

*KDE's long-term strategy is to take advantage of this control where possible, as evidenced by our ongoing shift to cloud services for data storage where controls of this nature are already in place (e.g. Office 365). KDE continues to review this control both internally and with its contract partners, to see how or if it can be implemented economically, efficiently and where it will make a positive difference based on an objective evaluation of risk, reward, and resources.*

*KDE respectfully disagrees with the APA's assertion that it is out of compliance with "certain security related Commonwealth standards" regarding this Finding. The Commonwealth Office of Technology understands that each agency must balance the cost of this control, specifically, protecting their data assets versus the inherent risk that may occur if they do not, and has stated such to KDE in writing, which we have shared with the APA along with our formal responses. Further evidence contradicting the APA's claim has also been provided, along with the COT email, referenced above.*

*Per COT's guidance, where KDE is unable to employ this security control, risks are offset by employing many different technologies and procedures, each appropriate for its use, to maintain data security while ensuring a high level of functionality. The APA's opinion that not employing one (1) specific technology will, by default, result in unprotected data is not supported by Commonwealth or federal guidelines or practices and may not take into full consideration the other, compensating, security controls in place.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-024: The Department Of Education Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information (Continued)**

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##### **Management's Response and Planned Corrective Action (Continued)**

*KDE again respectfully disagrees with the APA regarding its assertion in the Condition section of 16-KDE-10 that "KDE has not made progress on rewriting the EDD (Enterprise Data Dictionary)." As explained in KDE's response on June 27<sup>th</sup>, of 2016, "The initial metadata file structure for the EDD has been reported to the Data Governance Committee. The next step is to import the data from the school report card. After that, will continue with loading ETL's stable tables." Since June, significant additional progress has been made and the EDD will be presented to the KDE Data Governance Committee for review this Fall. It should be noted that the Enterprise Data Dictionary will provide for data classifications to be maintained.*

*Multiple, ongoing projects are tying together the relationships between KDE's critical data systems and where the sensitive confidential information are stored. Additionally, all KDE staff have been made aware of which data are confidential.*

##### **Auditor's Reply**

Detailed information related to this finding was provided to the agency separately in order not to increase the risk to the agency or its data. The conclusions are based on information and documentation provided by KDE management and the requirements put in place by COT within the Enterprise IT Policies and Standards. To clarify, auditors did not identify or recommend specific software or mechanisms that agencies must use to address data protection issues. Specific technology discussed within the comment and recommendations are data protection methods identified within the COT Enterprise Standards.

KDE indicated in its response compensating controls exist related to unsecured data housed on their network. A compensating control, by definition, is a mechanism put in place to reduce risk caused by an ineffective or absent control or to address a requirement that is deemed too difficult or impractical to implement. Within the detail provided to KDE, the APA acknowledged certain compensating controls that KDE has in place. However, the presence of compensating controls does not eliminate a weakness in internal controls.

Additionally, KDE did not provide a documented policy or guideline related to the compensating controls it believes adequately safeguards data at rest, and how the compensating controls meets or exceeds COT Enterprise IT Policies and Standards for this requirement. Additionally, KDE did not provide documentation indicating COT approved the use of the identified compensating controls as opposed to the method of data protection identified within its Policies or Standards. In the absence of this type of documentation and approval, the agency is ultimately subject to the COT Enterprise IT Policies and Standards currently in effect.



**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-024: The Department Of Education Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information (Continued)**

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**Auditor's Reply (Continued)**

KDE indicated within its response that significant work to address audit concerns related to the EDD was completed after June 30, 2016. It is important to note that the time period covered by our audit is FY 2016, or the period of July 1, 2015 through June 30, 2016. Therefore, the concerns related to the EDD are still applicable for this time period, and auditors will follow up with KDE regarding its progress in the FY 2017 audit.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-025: The Department of Parks Failed To Ensure All Accounts Payable Were Identified And All Invoices Were Paid Timely In Accordance With KRS 45.453**

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This is a repeat finding. The original finding, 2015-034, can be found in Volume I of the fiscal year 2015 SSWAK. The Department of Parks (Parks) Financial Operations Division receives invoices throughout the year from various vendors. Some invoices received at the close of the fiscal year are not paid until the first accounting period of the next fiscal year. These invoices are still obligations of the prior fiscal year and thus should be included and accounted for on the Parks closing package, which is submitted to the Finance and Administration Cabinet (FAC) for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). During fiscal year 2016, 32 invoices were examined and the following exceptions were identified:

- Eighteen expenditures were not paid within 30 working days of the vendor invoice date.
- Six expenditures were obligations of fiscal year 2016 paid in fiscal year 2017. Parks failed to report these expenditures totaling \$4,816 on the fiscal year 2016 closing package as accounts payable.

Parks internal controls were insufficient and failed to ensure all received invoices were paid timely in accordance with KRS 45.453, which allows 30 working days from the date of the vendor's invoice to pay. Failure to pay invoices timely can result in unnecessary expenses, such as late fees and penalties.

Additionally, internal controls failed to ensure that obligations were reported in the correct fiscal year, and properly identified on the agency's closing package as accounts payable when necessary. Failure to record all fiscal year 2016 obligations on the closing package leads to inaccuracies in financial reporting, including an understatement of current year payables and expenses.

KRS 45.453, Time period for payment, states, "[a]ll bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor."

Additionally, FAC's closing package instructions state, "accounts payable, as applied to the Commonwealth of Kentucky's GAAP reporting system, included liabilities incurred for goods received and services performed as of June 30 for which payment has not been made. Amounts to be reported on this form should include only amounts that will be paid with 'new year' funds."

#### **Recommendation**

We recommend Parks implement adequate internal controls to ensure expenditures are paid timely in accordance with KRS 45.453. Additionally, we recommend strengthening internal controls over the preparation and subsequent review of Parks closing package to ensure all accounts payable are properly accounted for in accordance with Generally Accepted Accounting Principles (GAAP) and FAC's closing package instructions.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-025: The Department of Parks Failed To Ensure All Accounts Payable Were Identified And All Invoices Were Paid Timely In Accordance With KRS 45.453 (Continued)**

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**Management's Response and Planned Corrective Action**

*The Department of Parks agrees with the findings; Referencing the "Eighteen expenditures were not paid within 30 working days of the vendor invoice date". The Department of Parks processed 59,232 payment documents in FY16. Due to the volume and at times, a lack of funding, there are instances where an invoice may fall outside the guidelines set forth in KRS45.453. The Department of Parks will strive to improve in this area by processing invoices in a more timely manner.*

*The Department of Parks agrees with the findings; Referencing the "Six expenditures were obligations of fiscal year 2016 paid in fiscal year 2017. Parks failed to report these expenditures, totaling \$4,816, on the fiscal year 2016 closing package as accounts payable". During our closing process for the FY16 CAFR, we reviewed 6,345 invoices for accounting periods 12 and 13. Of these we identified 788 invoices totaling \$2,759,940.21 to be coded to prior year expenses. Due to the large number of payments processed, these 6 invoices were inadvertently overlooked. The Department of Parks will review all period 12 and 13 documents multiple times before finalizing the CAFR.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-026: The Department of Parks Failed To Prevent And Detect A Duplicate Payment**

As part of the audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR), expenditures for capital projects managed by the Department of Parks (Parks) were reviewed. One invoice, totaling \$1,746, was erroneously paid twice. Both payments were not made timely in accordance with KRS 45.453. Each payment was made more than two months past the invoice date.

When the original invoice was received, Parks failed to remit the payment within 30 working days of receipt. After the original invoice was processed, another payment was issued for the same invoice in the Commonwealth's financial accounting system, eMARS. Since the actual invoice number had been used when making the original payment, a false invoice number was created in order to allow the second payment to process in eMARS without triggering implemented controls which would prevent the duplicate payment.

As a result of the duplicate payment, the contractor was overpaid by \$1,746. Although the noted instance was relatively minor considering the dollar magnitude, the potential exists for a much greater impact if internal controls can be easily circumvented. Parks processes millions of dollars in capital project payments annually, and a single duplicate payment could lead to a significant loss of funds that could go undetected. The circumvention of internal controls through methods such as creating artificial invoice numbers introduces a greater potential for fraud, waste, and abuse.

Additionally, Parks internal controls were insufficient and failed to ensure all received invoices were paid timely. Failure to pay invoices timely can result in unnecessary expenses, such as late fees and penalties.

Sound accounting procedures dictate that internal controls be established in order to prevent errors, fraud, waste, and abuse. Implemented internal controls should be documented, well designed, and approved by management. Management should fully support its control environment as a control structure easily circumvented is inadequate and ineffective in achieving its objectives.

KRS 45.453, Time period for payment, states, "all bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor."

**Recommendation**

We recommend Parks improve its internal control procedures to ensure payments are processed timely in accordance with KRS 45.453. Parks should remind personnel that circumventing established internal controls is unacceptable. Required processes should be communicated in policy and procedure manuals as necessary to ensure expectations are clearly defined.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-026: The Department of Parks Failed To Prevent And Detect A Duplicate Payment (Continued)**

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**Management's Response and Planned Corrective Action**

*The Department of Parks agrees in part to the findings. The invoice payment in question was processed past the 30 day deadline. All Parks employees who are authorized to make purchases on behalf of the Commonwealth have been educated in the guidelines set forth by KRS 45.453. Due to the volume of payment documents processed (59,232 for FY16) and the availability of funds, there is always going to be the possibility of a payment being processed outside of the 30-day deadline. We will continue to work towards alleviating this issue by insuring all personnel are aware of guidelines set forth in KRS 45.453.*

*The Department of Parks sees no evidence to substantiate the claim that a false invoice number was entered. There are built in safe guards in the eMARS system to keep an invoice number from being processed more than once. It is most likely that the invoice number was entered incorrectly which allowed the system to produce a second payment. As for the statement under the "effect" section of the finding that stated "the potential exists for a much greater impact if internal controls can be easily circumvented." Each capital project has a budget with set allotments. If a large duplicate payment occurs, at some point during the project the expenditure amount would exceed the allotment and throw up a red flag because no other payments could be processed. If the duplicate payment, as in this case, is smaller, all projects are reviewed and reconciled by the project manager before they are closed. In this scenario the duplicate would be identified at the closing of the project. The Department of Parks will continue to analyze each invoice to insure invoice numbers are entered correctly.*

**Auditor's Reply**

Management's response indicates there was no evidence to substantiate the claim that a false invoice number was entered. Written correspondence to our inquiry stated someone "manipulated the invoice number so that it would finalize." In response to management's belief that the effect of this deficiency is limited by additional controls, it should be recognized that capital projects often extend beyond a single fiscal year. As such, errors may not be detected timely, and significant duplicate payments, especially related to large capital projects, could cause financial statements to be overstated in the year in which they occur.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-027: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations**

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The Kentucky Department of Parks (Parks) maintains a bank account outside of the Kentucky State Treasury (Treasury) to temporarily hold funds associated with campground reservations collected by a contracted service organization. Twice each month, Parks reviews supporting documentation for the recorded deposits in the account and writes a check to itself and the Kentucky Horse Park (KHP) in order to allocate funds received between the two entities. Parks' check is deposited into Treasury and the KHP check is mailed to KHP's accounting department. Review of the internal controls safeguarding this outside bank account revealed the following:

- Necessary bank reconciliations of the account were not current. The most recent bank reconciliation completed was as of March 2016. At June 30, 2016, account bank statements reported a balance of \$480,505, which was unreconciled.
- Available bank reconciliations did not document who completed the reconciliation or who reviewed the work performed.
- Parks did not provide KHP any supporting documentation with their check to assist in verifying the completeness and accuracy of the distributed receipts.
- Parks did not review and confirm that the fees retained by the service organization were accurate based on the terms of the agreed upon contract.
- The reviewed bank statements included additional activity other than campground reservation receipts. Although this activity was minimal, commingling these funds required additional work to reconcile.
- Parks did not maintain written guidance or a manual documenting the procedures necessary for completing the reconciliation.

Parks failed to implement adequate internal controls over the monitoring of its outside bank account, which was compounded by limited time and the availability of staff needed to complete necessary processes. Failure to complete bank reconciliations timely can lead to oversights, errors, and miscalculations that could go undetected for months, increasing the complexity of reconciling the bank account. Accounts held outside Treasury are at a higher risk of fraud, waste, and abuse.

When dealing with reservations, the reconciliation process is pivotal in ensuring funds are properly reported on the financial statements. Failure to verify receipts are complete, accurate, and properly classified could lead to a material misstatement on the financial statements. Failure to monitor contract compliance could lead to the unnecessary loss of revenue due to Parks being overcharged for provided services. Lack of written policies could lead to delays in completing the reconciliations accurately, especially if personnel changes occur unexpectedly.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-027: The Department Of Parks Failed To Adequately Monitor Receipts From Campground Reservations (Continued)**

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Sound internal controls require bank accounts be reconciled in a timely manner, reviewed by appropriate personnel, and signed or initialed with a date to indicate review. Supporting documentation should ensure the completeness of the receipts, and that necessary fees were collected in accordance with contractual agreements. Written policies and procedures help prevent mistakes, ensure compliance, save time, ensure consistency, and improve quality.

#### **Recommendation**

We recommend Parks:

- Complete all outstanding reconciliations of the campground reservation bank account.
- Formally document required procedures for preparing and reviewing the reconciliations. This should include the requirement for signatures documenting the procedures were performed.
- Submit supporting documentation to KHP for their reservation receipts in order to ensure accuracy in their financial reporting.
- Implement procedures to verify that fees collected by the service organization are correct in accordance with the terms of their contract.

Parks should consult with the Finance and Administration Cabinet (FAC) and Treasury to discuss options to possibly have all campground reservations receipts either deposited straight to Treasury or electronically swept from the temporary account. If a viable option, receipts would be further safeguarded and Parks would only need to transfer funds within the accounting system, eliminating the need to write checks monthly. Parks would still be responsible for reconciling receipts back to supporting documentation and verifying that fees collected by the service organization are correct in accordance with the contract.

#### **Management's Response and Planned Corrective Action**

*The Department of Parks agrees with the finding. The Department of Parks will work towards reconciling the bank statement in a more timely manner. We will implement a procedure that verifies the fee's collected by [Vendor Name Redacted] are correct. We will also implement written procedures for reconciliation of the account that include signatures documenting the procedures were performed. Furthermore, we will submit documentation to the KHP for their reservation receipts in order to ensure accuracy.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-028: The Department of Parks Failed To Assess And Monitor Its Service Organization Processing Campground Reservations**

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The Kentucky Department of Parks (Parks) utilizes a service organization to process campground reservations on its behalf. Parks relies on the service organization to implement adequate internal controls over the reservation process and the data and information acquired. Review of the most recent Service Organization Control (SOC) report available, covering the period December 1, 2014 through May 31, 2015, revealed a qualified opinion on certain aspects of the service organization's control environment had been issued. Parks failed to assess and monitor the service organization timely to ensure an acceptable control environment was in place to safeguard and protect the integrity of the reservation process.

Parks failed to recognize the importance of assessing and monitoring the service organization to ensure a high level of reliance could be placed on the service organization's operations and control environment. While Parks does not have direct control over the internal control environment at the service organization, Parks is still responsible for ensuring internal controls impacting financial reporting are sufficient and acceptable.

The failure to monitor the integrity of the campground reservation process controlled by the service organization could lead to waste, fraud, and abuse that could impact Parks. Additionally, errors in the design and operating effectiveness of internal controls at the service organization could affect the financial statements of Parks.

SSAE 16 defines a service organization as "an organization or segment of an organization that provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting." Sound internal controls dictate that adequate assurance be obtained as to the appropriateness of design and operating effectiveness of internal controls for service organizations.

#### **Recommendation**

We recommend Parks further its understanding of the internal control process within the service organization handling campground reservations. Parks should request SOC reports or other available documentation timely and evaluate the adequacy of documented controls. Parks should continually assess how the service organization's internal control system impacts operations. In instances where reports identify potential deficiencies, Parks should determine any potential impact on operations. Parks should document the assessment of service organizations to support determinations made.

#### **Management's Response and Planned Corrective Action**

*The Department of Parks agrees with the finding. The Department of Parks will work with [Vendor Name Redacted] to further understand their internal control process. We will request periodic documentation in order to better reconcile the funds being transferred. We will also request an annual report of audit findings and take any corrective action necessary.*



## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-029: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To eMARS**

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The fiscal year (FY) 2016 audit of the Department of Revenue (DOR) identified that since the Enterprise Electronic Payments Systems (EEPS) was implemented by the Commonwealth Office of Technology (COT) in January 2014, DOR has not been able to reconcile tax payments to the enhanced Management Accounting and Reporting System (eMARS). EEPS is the new payment engine that replaced DOR's legacy ePayment Gateway (ePay) application, while eMARS is the Commonwealth's primary accounting system for financial reporting. EEPS allows taxpayers the ability to make the following tax payments online: Employer's Withholding Tax, Sales and Use Tax, Telecommunication Tax, and Utilities Gross Receipts License Taxes (UGRLT).

Prior to EEPS, DOR used the ePay system and was able to successfully perform reconciliations to eMARS on a monthly basis. After the implementation of EEPS, DOR, in conjunction with COT, documented the reconciliation issues in the Monthly Balancing Issue Report dated March 9, 2015. This report indicated the reconciliation problems were due to timing differences, different ways the funds were recorded, potential input errors, and the lack of returns and refund information in EEPS. We are aware DOR is working with COT to identify a solution and resolve the issue.

Due to the issues with the lack of reconciliations between EEPS and eMARS, the FAC reporting team determined that a FY 2015 \$42,100,230 tax payment shown in the EEPS system was not correctly accounted for in the eMARS clearing account for tax deposits and was not properly credited to the proper fund account. The error will be corrected by FAC in a prior period adjustment in the FY 2016 financial statements.

Additionally, auditors performed procedures for FY 2016 to determine whether revenue amounts reported by DOR in the Commonwealth's financial statements were materially accurate. During the review, DOR staff identified differences of \$63,575,184 as of June 30, 2016 between eMARS and EEPS. However, of this amount, \$45,187,011 was comprised of unrecorded deposits as of June 30, 2016 that were posted to eMARS during the annual financial statement closing process. Additionally, our testing determined that an additional \$11,952,072 was received and deposited prior to June 30, 2016, but was recorded in eMARS as FY 2017 activity in error. Also, \$6,451,516 of credit card and ACH transaction amounts were not posted in the correct fiscal year due to timing differences between eMARS and EEPS. Therefore, auditors recommended an audit adjustment in the amount of \$18,403,588 to accurately reflect current year revenue. The result of these transactions and corrections reduced the amount of unreconciled revenues between EEPS and eMARS to \$15,416. However, although audit procedures were able to identify the unreconciled differences to an immaterial amount for FY 2016, DOR still does not have a process in place for timely reconciliation of revenues recorded among the separate data sources.

Based on inquiries, DOR did not communicate to COT the necessary reporting requirements that would assist with certain EEPS reconciliations. The reporting requirements were not included in the development and design of EEPS. DOR did not perform adequate user acceptance testing (UAT) and verify necessary reconciliations could occur prior to approving the implementation of the system. Therefore, it appears the agency did not assess the potential impact of the EEPS implementation on its processes in order to implement proper system reporting or process changes to offset those risks.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-029: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To eMARS (Continued)**

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Since an automated reconciliation process was not developed, DOR has had to rely on a manual reconciliation process. The vast number of transactions processed in these systems makes that a very difficult and time-consuming task, increasing the risk that significant errors will occur and not be detected.

Systems that cannot be reconciled can result in oversights, errors, and miscalculations that misstate account balances for financial reporting purposes. In addition, the lack of communication between COT and DOR has resulted in numerous reconciliation issues between EEPS and eMARS. As of June 30, 2016, DOR staff identified errors and/or reconciling differences of as much as \$63,575,184 resulting from these problems. However, due to the reconciling differences resulting in part from timing issues, the magnitude of the discrepancies fluctuated significantly during the year.

Good internal controls over the monthly reconciliation process are necessary to ensure that transactions are accurate, complete, and consistent within both EEPS and eMARS. Sound internal controls dictate that underlying accounting records, in this case the various DOR IT systems, be reconciled to the accounting records contained in the statewide accounting system. EEPS should be reconciled on a monthly basis to verify that all items were posted correctly to the various accounts and any differences are identified and corrected. Unreconciled accounts at month end could result in inaccurate recording of transactions, incorrect reporting, and potentially affect other resources.

**Recommendation**

We recommend DOR continue to work with COT, the Finance Cabinet – Office of the Controller, and as well as other external entities, to resolve the EEPS reconciliation issues. We understand these discussions are currently taking place and believe it is clear that all parties understand the importance of creating a reconciliation process that adequately works to resolve the issues noted herein.

Furthermore we recommend:

- DOR should maintain all documentation of the correspondence and management decisions pertaining to the solution for the reconciliation issues.
- DOR should work with COT to create a statement of work (SOW) that defines the deliverables and timeline for the resolution. Once the SOW has been approved, DOR should distribute the SOW to applicable staff and/or agencies to ensure expectations are known and to establish accountability for the responsible agencies involved in the process.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-029: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To eMARS (Continued)**

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##### **Recommendation (Continued)**

- Prior to implementation of new systems, DOR should perform adequate testing to ensure the system is working as expected, interfacing, and reconciling with other systems as anticipated. If these recommendations are not feasible, then DOR should perform alternate procedures to ensure that EEPS reconciles with eMARS accurately.

DOR in conjunction with FAC should implement policies and procedures to ensure timely reconciliation of revenue data contained in DOR's various systems to data recorded in eMARS. Due to the magnitude to which the Commonwealth is dependent upon proper recording of its revenues for the Comprehensive Annual Financial Report (CAFR), it is important to consider additional emphasis be placed on the reconciliation process to ensure the accuracy of the information being reported in the Commonwealth's financial statements.

##### **Management's Response and Planned Corrective Action**

*DOR has reviewed finding 2016-029 and agrees that there is difficulty in completing a monthly reconciliation of electronic payments in EEPS that are posted by DOR in the ARP system and amounts posted in eMARS. One of the major reasons for this difficulty is a payment in EEPS cannot be linked directly to the CR created in eMARS for that payment amount. DOR utilizes data from EEPS to complete postings in the ARP System. Consequently, without the direct link back to the eMARS CR, a monthly reconciliation is difficult and can be very labor intensive. Further, system changes are needed that will keep the EEPS system from recording, stopped or rejected payments that are not deposited, as actual payments that are picked up by the mainframe jobs and processed. DOR will continue to work with COT, the Controller's Office, Treasury and [Vendor Name Redacted] to develop a solution to this problem.*

*Additionally, the RCW has listed several specific occurrences of posting errors related to electronic payments. DOR has included some additional information related to many of the posting errors described in the document. Points 1 through 4 below outline this additional information.*

1. *There was a reference in the finding to a FY 2015 tax payment for \$42,100,230.*
  - *April 30, 2015 Taxpayer attempts to make a \$42,100,230.00 ACH payment (creates an error in TPE).*
  - *Payment is not shown as a deposit in EMars. No credit in Emars Clearing Account.*

## FINANCIAL STATEMENT FINDINGS

### *Significant Deficiencies Relating to Internal Controls and/or Noncompliances*

#### **FINDING 2016-029: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To eMARS (Continued)**

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#### **Management's Response and Planned Corrective Action (Continued)**

- *DOR is notified of the payment by REREPI08 Report (EEPS) and posts money to the Clearing Account in ARP.*
  - *A nightly mainframe job (DM110) runs and distributes payment. Clearing Account is debited and Sales Tax Receipt Account is credited in ARP.*
  - *DM110 interface debits Clearing Account in EMars and credits Sales Tax Receipt Account in EMars for payment.*
  - *This results in \$42,100,230.00 being debited from Clearing Account in EMars that was never credited and the same amount of money being credited to the Sales Tax Receipt Account in EMars.*
  - *DOR discovers payment error May 1, 2015, and debits Sales Tax Receipt Account for \$42,100,230.00. Net result is all accounts in ARP are correct. DOR personnel contact the Controller's Office and relay information related to the error and that corrections are needed in eMARS.*
  - *DOR research indicates corrections had not been completed as originally discussed and informed Controller's Office on September 26, 2016.*
2. *There was a reference in the RCW to unrecorded deposits as of June 30, 2016 in the amount of \$45,187,011.*
    - *Deposits were incorrectly recorded in eMARS as FY 17 activity by Controller's Office.*
    - *DOR recorded payments in Accounts Receivable Posting System (ARP) in FY 16 when received.*
  3. *There was a reference in the RCW to payments totaling \$11,952,072 received and deposited prior to June 30, 2016 but recorded in eMARS as FY 17 activity.*
    - *Deposits were incorrectly recorded in eMARS as FY 17 activity by Controller's Office.*
    - *DOR recorded payments in Accounts Receivable Posting System (ARP) in FY 16 when received.*
  4. *There was a reference in the RCW to \$6,451,516 of credit card and ACH transaction amounts not posted in the correct fiscal year due to timing differences between eMARS and EEPS.*
    - *Amount listed is the difference for FY 16 only. If differences are considered from when EEPS started (February 2014) the net difference is only \$3,189,396*
    - *This would change the recommended audit adjustment from \$18,403,588 to \$15,141,468.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-029: The Department Of Revenue Was Unable To Reconcile The Enterprise Electronic Payments System To eMARS (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*Further, in the Recommendation Section of the finding, it is recommended that DOR continue to work with COT, the Controller's Office as well as other external entities. DOR agrees with the recommendations listed and will continue to work with all parties to develop an acceptable solution to the electronic payment reconciliation problem.*

*Further, in an effort to resolve the reconciliation issue, DOR has already taken a number of corrective actions which are described below.*

- DOR has worked with [Vendor Name Redacted] to change their cutoff time for ACH payments to coincide with the time COT runs daily mainframe jobs to process payment files. Previously, [Vendor Name Redacted] would cutoff payments for a given day at 9:00pm while COT would start running mainframe jobs at 6:30pm. This will reduce many of the timing differences between EEPS and eMARS.*
- DOR has worked with Treasury and the Controller's Office to eliminate delays in approving CR's. This too will reduce timing differences between EEPS and eMARS.*
- DOR has gained access for staff to Emars reports. This enables staff to view data for any period in the past as well as data for the most current month and allows for more timely discovery and correction of issues.*
- DOR has added steps to the monthly Emars/ARP reconciliation process. All TPS/EEPS CR documents for the month are being opened and deposit date is compared to the period they are posted in to better identify any timing issues.*

*DOR has created a COT Ticket requesting a solution to the reconciliation issues related to electronic payments: DM7034 - DOR Reconciliation Process (Incident #567428).*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-030: The Finance And Administration Cabinet Did Not Remit Timely Operating Payments To Fiscal Courts**

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This is a repeat finding. The original finding, 2015-019, was included in Volume I of the fiscal year 2015 SSWAK report. In counties having a population of 70,000 or more, certain operating expenses are paid out of the State Treasury rather than accounts maintained by the county. These funds are collected by the counties but deposited into the State Treasury. Because of this, these counties rely on timely payments by the Division of Local Government County Fees Systems Branch (CFSB) to ensure uninterrupted continuance of county government operations. CFSB is required to remit 25% of the funds collected to the fiscal court in each county in quarterly installments. Based on information obtained through multiple fee audits conducted by the APA, quarterly payments due to the fiscal courts are not being remitted timely. For example, the auditors found payments were not remitted timely for the following counties: Christian, Bullitt, and Fayette.

Turnover at CFSB and delays in responding to issues raised by the counties have led to the current situation.

Late payments place an unnecessary financial strain on these counties who rely on this funding, which they collected but cannot access, and impair daily operations. By not having a consistent timeframe for the receipt of payments, planning is difficult for county officials.

KRS 64.350(1) states, in part:

The amount of twenty five percent (25%) of the fees collected by the county clerks and sheriffs during each calendar year shall be paid to the fiscal courts, urban county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. Each payment shall be for the preceding three (3) months during which fees were received by the Finance and Administration Cabinet.

#### **Recommendation**

CFSB should make the resolution of this issue a priority through reallocation of resources and process improvements in order to comply with KRS 64.350.

#### **Management's Response and Planned Corrective Action**

*To identify the noncompliance action of the Division, the transfer of the 25% of the fees collected by the Large County fee officials were not completed timely during the first six months of 2015. This included all twelve County Clerks and twelve Sheriffs.*

*For the 2011-14 term, the transfer of September 2014, October 2014, and November 2014 was statutorily due January 15, 2015. This transfer for all 24 officials was included with the December, 2015 receipts and not completed until April 30, 2015.*

*For the 2014-18 term, the transfer of January, 2015 and February, 2015 was statutorily due by April 15, 2015, was not completed until April 30, 2015 for all 24 officials.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-030: The Finance And Administration Cabinet Did Not Remit Timely Operating Payments To Fiscal Courts (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*The third 2015 transfer of March, 2015, April, 2015 and May 2015 was statutorily due by July 15, 2015, but was completed earlier by July 9, 2015.*

*The fourth transfer of June, 2015, July, 2015, and August, 2015 was statutorily due by October 15 2015, but was completed earlier by October 14, 2015.*

*During the calendar year 2015, the January 15<sup>th</sup>, April 15<sup>th</sup>, July 15<sup>th</sup>, and October 15<sup>th</sup> were completed by January 13<sup>th</sup>, April 5<sup>th</sup>, July 6<sup>th</sup> and October 5<sup>th</sup> respectively.*

*In addition to the problems listed above, we were notified of problems with the payment schedules listed above for Boone County Clerk and the Christian County Clerk fees. The auditor was assuming that the fees collected in the third month of a quarter, should be distributed to the Fiscal Court by the 15<sup>th</sup> of the next month. Actually, the fee official could not transfer the third month's receipts to the Division until the first month of the next quarter. At the end of the quarter, payment would be made to the respective Fiscal Court for that quarter.*

*The Division now distributes receipts to respective Fiscal Court, Metro Government or Urban County Government on or after the 5<sup>th</sup> working day of the month after the end of the quarter.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-031: The Finance And Administration Cabinet Did Not Timely Close Old Year Accounts**

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This is a repeat finding. The original finding, 2015-017, was included in Volume I of the fiscal year 2015 SSWAK report. In counties having a population of 70,000 or more, certain operating expenses are paid out of the State Treasury rather than accounts maintained by the county. These funds are collected by the counties but deposited into the State Treasury. Because of this, these counties rely on timely payments by the Division of Local Government County Fees Systems Branch (CFSB) to ensure uninterrupted continuance of county government operations. In order to facilitate this process, accounts are created annually for these counties in the state's accounting system, eMARS. These accounts are used to hold and track funds transferred between the counties and CFSB. When a new four-year term begins, old term accounts are emptied by paying remaining funds over to the fiscal court or by collecting amounts due to the state, and then closed to ensure proper tracking of funds between officials. The old term account for Boone County was not closed timely.

Turnover at CFSB and delays in responding to issues raised by the counties have led to the current situation.

According to KRS 64.350, at the end of the official's term, CFSB should close out the old term accounts and pay any remaining balance to the fiscal court or collect amounts owed if the account has a deficit balance. Good internal controls dictate the proper tracking and reconciliation of funds. The closing of old term accounts is a vital internal control process for ensuring accurate reconciliations can be performed. Also, by closing old term accounts, the risk of incorrect transfers or account balances is reduced.

**Recommendation**

CFSB should close old term accounts timely so as to avoid the administrative issues currently facing the counties as a result of these accounts remaining open and to ensure funds that are owed to the fiscal court are paid to them as required.

**Management's Response and Planned Corrective Action**

*To identify the noncompliance action of the Division, the transfer of the 25% of the fees collected by the Large County fee officials were not completed timely during the first six months of 2015. This included all twelve County Clerks and twelve Sheriffs.*

*For the 2011-14 term, the transfer of September 2014, October 2014, and November 2014 was statutorily due January 15, 2015. This transfer for all 24 officials was included with the December, 2015 receipts and not completed until April 30, 2015.*



**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-031: The Finance And Administration Cabinet Did Not Timely Close Old Year Accounts (Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*For the 2014-18 term, the transfer of January, 2015 and February, 2015 was statutorily due by April 15, 2015, was not completed until April 30, 2015 for all 24 officials.*

*The third 2015 transfer of March, 2015, April, 2015 and May 2015 was statutorily due by July 15, 2015, but was completed earlier by July 9, 2015.*

*The fourth transfer of June, 2015, July, 2015, and August, 2015 was statutorily due by October 15 2015, but was completed earlier by October 14, 2015.*

*During the calendar year 2015, the January 15<sup>th</sup>, April 15<sup>th</sup>, July 15<sup>th</sup>, and October 15<sup>th</sup> were completed by January 13<sup>th</sup>, April 5<sup>th</sup>, July 6<sup>th</sup> and October 5<sup>th</sup> respectively.*

*In addition to the problems listed above, we were notified of problems with the payment schedules listed above for Boone County Clerk and the Christian County Clerk fees. The auditor was assuming that the fees collected in the third month of a quarter, should be distributed to the Fiscal Court by the 15<sup>th</sup> of the next month. Actually, the fee official could not transfer the third month's receipts to the Division until the first month of the next quarter. At the end of the quarter, payment would be made to the respective Fiscal Court for that quarter.*

*The Division now distributes receipts to respective Fiscal Court, Metro Government or Urban County Government on or after the 5th working day of the month after the end of the quarter.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-032: The Finance And Administration Cabinet Overstated Revenues In Fiscal Year 2015 Which Caused A Restatement In Fiscal Year 2016**

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During the audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR), we review restatements of beginning balances for the various accounts in the financial statements. A restatement, affecting the Other Special Revenue Fund, was necessary due to a journal entry processed by the Finance and Administration Cabinet (FAC) which erroneously recorded revenue in fiscal year 2015 that should have been recorded in fiscal year 2016.

The journal entry was processed based on the incorrect assumption that a cash deficit existed in the Other Special Revenue Fund at the end of fiscal year 2015. The deficit was assumed to have been caused by fiscal year 2016 cash receipts and corresponding revenues that should have been recognized in fiscal year 2015. This was incorrect, however, as the cash deficit was actually caused by a processing error related to tax receipts.

Due to the journal entry being made based on this incorrect assumption, the net effect on fiscal year 2015 revenue was a net overstatement of \$20,749,000. The issue has been remedied through a correcting journal entry so that fiscal year 2016 revenue is accurately stated.

Proper internal controls dictate procedures be in place to ensure all financial data is complete, accurate, and that journal entries are correct and justified.

**Recommendation**

FAC should make the resolution of the tax receipt processing issue a priority through collaboration with the Department of Revenue, Commonwealth Office of Technology, and the Office of Statewide Accounting Services.

**Management's Response and Planned Corrective Action**

*Department of Revenue, Commonwealth Office of Technology, and the Office of Statewide Accounting Services have been working together to resolve the tax receipt processing issue. The Secretary of Finance has stressed to all parties involved that a timely reconciliation of revenue data be implemented to ensure accuracy of information reported in the Commonwealth's financial statements.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-033: The Finance And Administration Cabinet Did Not Completely Comply With Enterprise Policies And Standards To Protect Confidential And Sensitive Information**

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This is a repeat finding. The original finding, 2015-021, can be found in Volume I of the fiscal year 2015 SSWAK. The fiscal year (FY) 2016 audit revealed weaknesses in the Finance and Administration Cabinet's (Finance) procedures regarding the security of confidential and sensitive data. Finance is required to follow Commonwealth Office of Technology (COT) enterprise policies and standards, and there are several policies and procedures that address data protection. Discussions with the agency revealed some types of data are not adequately protected from potentially intentional or unintentional access or misuse of information. This issue was first identified in FY 2013. However, during the last year, Finance has worked with COT to identify a plan for enhancing the security over certain types of data.

Detailed information that could increase the risk that agency security is compromised was intentionally omitted from this comment. However, auditors thoroughly discussed this issue with Finance.

Although Finance has developed plans to identify and protect sensitive and confidential data, these plans were not completed during FY 2016.

Failure to adequately protect data increases the risk that Personally Identifiable Information (PII) or other sensitive or confidential data could be accessed or made available to the general public, which could compromise information related to employees or vendors.

Sensitive or confidential data must be protected from unauthorized users or exposure to the general public. The agency should completely and consistently comply with all applicable COT enterprise policies and standards related to protection of sensitive and confidential data received, housed, and transmitted by the agency. Specific policies and standards have been discussed with the agency.

#### **Recommendation**

We recommend Finance continue working with COT to ensure all data received, housed, or transmitted is reviewed to determine whether it should be classified as confidential and sensitive based on the COT enterprise standards. Once this determination has been made, data classified as confidential or sensitive should be sufficiently protected in compliance with COT enterprise policies and standards. Management should ensure sufficient resources are dedicated to address this weakness in a timely manner and ensure the security of confidential and sensitive data remains a top priority. Current work plans established with COT to enhance security over certain confidential and sensitive data should be completed. Management should provide training to staff, as needed, to ensure policies are consistently applied.

#### **Management's Response and Planned Corrective Action**

*Finance will review and classify data obtained and housed by Finance to ensure all confidential and sensitive data is identified. Once Finance identifies and classifies all sensitive and confidential data housed on Finance servers and databases we will work with COT to ensure the data is protected up to the standards identified within the COT Enterprise Standards. Further, management shall provide training to staff, as needed, to ensure policies are consistently applied.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-034: The Finance And Administration Cabinet Did Not Ensure Available Information Within eMARS Reporting Was Complete To Allow Accurate Reporting**

This is a repeat finding. The original finding, 2015-020, can be found in Volume I of the fiscal year 2015 SSWAK. The fiscal year (FY) 2016 audit of the Finance and Administration Cabinet (Finance) revealed the reporting solution used in conjunction with the enhanced Management Administrative and Reporting System (eMARS), could not be consistently relied upon to provide the user with complete and accurate data. During the audit, instances were found where reporting was not functioning properly.

We identified two instances where a data field related to a document was not available within the associated universe, which is a collection of related data elements for reporting purposes, but was either explicitly required or prohibited by the Document Control (DCTRL) table and available for use on the online version of the document.

- We found that the “Cited Authority” field was required for the Contract (CT), Contract 2-Way Match (CT2), Contract KYTC (CTT1), Contract 2-Way Match KYTC (CTT2), Delivery Order (DO), Delivery Order 2-Way Match (DO2), Delivery Order PunchOut with ProCard (DO3), Delivery Order PunchOut without ProCard (DO4), General Accounting Expense/Expenditure (GAX), Purchase Order (PO), Purchase Order 2-Way Match (PO2), Proof of Necessity Agreement (PON2), Commodity Based Payment Requisition (PRC), and Commodity Based Internal Payment Requisition (PRCI) documents based on the DCTRL table; however, the “Cited Authority” field was not available in the Accounting Journal class or linked to the document codes within the FIN – General Accounting Universe. The field was available for use when these documents were developed.
- We noted in prior years and confirmed for FY 2016 there was no “Event Type” field available within the Accounts Payable – KY Universe. Therefore, the auditor was not able to test documents populated within the Accounts Payable – KY Universe for required or prohibited fields based on the Event Requirement (ERQ) table.

Additionally, we identified four instances where a data field related to a document was available within the anticipated universe, but the linking was not established to allow for reporting that will include the data field.

- We identified instances where the “Event Type” field was available, but not linked to the Intercept Activity section within the FIN – Accounts Payable Universe. Without this linking to the “Event Type,” it was not possible for reporting to be developed to determine the appropriateness of coding for required and prohibited fields from the ERQ table on the General Accounting Intercept Payment (GAIP) documents.
- We determined the Vendor/Customer information was not linked to the Intercept Activity section within the FIN – Accounts Payable Universe. Without this linking, it was not possible to ensure edits related to Vendor/Customer fields were operating effectively. Specifically, the GAIP document was affected by this issue.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-034: The Finance And Administration Cabinet Did Not Ensure Available Information Within eMARS Reporting Was Complete To Allow Accurate Reporting (Continued)**

- We also determined the Chart of Accounts information was not linked to the Intercept Activity section within the FIN – Accounts Payable Universe. Without this linking, it was not possible to ensure edits related to the “Unit,” “Department,” and “Object” fields were operating effectively. Specifically, the GAIP document was affected by this issue.
- We found that the “Bank Account” field is available to be included in queries created in the Accounts Payable Open Items Universe; however, the linking necessary to make this a valid search field has not been established. Therefore, when the “Bank Account” field is included in a query, an error will be returned. We are aware the “Bank Account” field can be queried in the FIN – General Accounting Universe. Further, we noted the document being tested, Management Budget (OB1), did not have a “Bank Account” field to be populated when the document was created in eMARS Financial.

Finally, a data dictionary has not been developed to document the information available within the eMARS Reporting universes and how these data elements are linked. Finance documented comparisons between the 3.6 and 3.10 versions of several universes for use by staff as they recreated reports in the new 3.10 environment. However, there were a number of universes that were converted to version 3.10, which were not documented in this way. Therefore, a data dictionary of all available universes has still not been fully developed. We are aware the Metadata Management universe is designed to provide detailed structure and mapping information on the eMARS Reporting universe, data warehouse, ETL process, as well as the database and application. However, it is not currently being utilized by Finance. It should be noted that a data dictionary was created for the MRDB2 tables, which is maintained separately from eMARS Reporting and not available to all system users.

Over the last several years, Finance has been working on upgrades to the financial and reporting modules of eMARS. These efforts have taken a great deal of the available resources. This issue has been addressed to the agency for the past nine audit cycles.

The lack of a data dictionary in conjunction with the inability of a normal end-user to see the underlying database links related to data elements increases the risk that a user will develop reports based on incorrect data elements, or inadvertently exclude data due to links that the user is unaware of when developing the report. Such reporting issues could cause the results to be inaccurate or incomplete.

The Control Objectives for Information Related Technology (COBIT) Version 5, created by the Information Systems Audit and Control Association (ISACA), is an industry standard for IT management and IT governance. According to COBIT EDM01.02, agencies should “[e]nsure that communication and reporting mechanisms provide those responsible for oversight and decision-making with appropriate information.” For reports to be useful and valid for management decision-making purposes, the reporting solution used should be appropriately designed to allow users to view data and develop reports that are complete and accurate. A reporting solution must, therefore, be understandable by the end user in structure, content, and context. Further, the underlying structure of the data must be appropriate for the overall accounting process of the organization; otherwise, the solution may provide information that is not expected by the end user.

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-034: The Finance And Administration Cabinet Did Not Ensure Available Information Within eMARS Reporting Was Complete To Allow Accurate Reporting (Continued)**

##### **Recommendation**

We recommend Finance, in conjunction with the vendor, work to ensure all known reporting problems are corrected or properly addressed in eMARS Reporting. A review of the established links within the universes should be performed to ensure they are functioning as intended for the Commonwealth of Kentucky.

To further assist end user reporting capabilities, Finance should develop a data dictionary addressing all universes within eMARS Reporting that is readily available to users. This data dictionary should include information concerning:

- The originating table location of the data element;
- A description of the data element;
- A description of all pertinent joins involving the data element; and,
- A listing of other data elements that the data element is dependent upon for reporting purposes.

##### **Management's Response and Planned Corrective Action**

*For questions regarding the verification of "DCTRL" settings (bottom of page 1 – top of page 2) this may best be accomplished by querying the Advantage Financial database instead of the reporting data warehouse. This is not available to "end users" but can be made available to auditors at the APA, as needed.*

*For the three bullet points regarding the GAIP document (bottom of page 2) this can also best be handled by querying the Advantage Financial database. Also, there is only one allowable Event Type configured for the GAIP document.*

*I am unsure about the bullet point at the top of page 3. The OBI document is used for management budget purposes only. It does not create any accounting entries in the system. It merely records information in the data warehouse that can be used for the development of agency management budgets. The OBI document does not have a Bank Code on the document.*

*Finance continues to work to ensure the reporting community has the tools necessary for them to complete their tasks. We have developed a number of MRDB2 tables to assist the reporting needs of the agencies and to give them additional tools for reporting. A copy of the updated MRDB2 "data dictionary" has been provided to the Auditors.*

*Finance continues to have discussions internally on how to best assist report developers. We may develop a "Report Developers" Guide that may or may not be used in conjunction with a Report Developer class/workshop. A number of these "working sessions" were held during the most recent eMARS upgrade and were very successful. We are looking at developing some type of manual/guide to accompany this but are not sure what the final product will look like and how detailed it will be.*

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-034: The Finance And Administration Cabinet Did Not Ensure Available Information Within eMARS Reporting Was Complete To Allow Accurate Reporting (Continued)****Auditor's Reply**

We acknowledge the DCTRL settings and GAIP documents can be queried through the Advantage Financial database; however, end users do not generally have access to this database. Therefore, if a user attempts to query these items through eMARS Reporting using the universes identified in the finding, the results will be unreliable. Although there is only one allowable Event Type for the GAIP document, attempting to include the Event Type field in a query involving the Intercept Activity section of the FIN – Accounts Payable Universe will also produce unreliable results.

Furthermore, as noted in the finding, we acknowledge the OB1 document does not have a Bank Account field. However, if a user attempts to include the Bank Account field in any query within the Accounts Payable Open Items Universe, an error will be returned.

Finally, as noted in the finding, we acknowledge Finance has created MRDB2 tables and an MRDB2 data dictionary to assist agencies. However, the MRDB2 tables are maintained separately from eMARS Reporting and are not available to all system users.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-035: The Kentucky Horse Park Did Not Perform Adequate Or Timely Bank Reconciliations**

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The Kentucky Horse Park (KHP) operates using three local bank accounts for deposits that are subsequently transferred to the State Treasury. Two of the three accounts had issues with reconciliations. As of December 2016, the reconciliation for June 2016 had not been completed. Another account reconciliation procedure was not effective, as it was more of a summarization of the bank statement. The information being reconciled should have originated from source data instead of the bank statement.

The delay in the reconciliation was caused by staff turnover and a shortage in staff. The employee charged with the reconciliation of this account was also in charge of numerous activities, including training new staff that had been hired to alleviate the staff shortage.

An effective reconciliation was not established when the account was opened. That particular account is a clearing account. The employees that designed the reconciliation did not recognize the process would be ineffective.

Ineffective reconciliation procedures will not detect errors or inaccuracies. Further, without timely reconciliation, errors could go undetected, and thus, uncorrected.

Bank statements should be reconciled to the entity's underlying financial data to ensure that cash activity at the bank is correct and accurate. The reconciliation should occur in a timely manner, typically within 30 days of receiving the bank statement, so that errors can be resolved within a reasonable time frame.

**Recommendation**

It is recommended that KHP improve procedures over reconciliations to ensure that they are effective and completed timely.

**Management's Response and Planned Corrective Action**

*Reports generated from the new POS system along with additional staff will help to ensure that reconciliations are completed in a timely manner.*



## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-036: The Kentucky Horse Park Did Not Have Adequate Procedures Over The Processing Of Expenditures**

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During the Fiscal Year 2016 Kentucky Horse Park (KHP) audit, a sample of 145 invoices, which included 16 ProCard transactions, were selected and tested to ensure the accuracy and completeness of KHP expenditures. These tests resulted in the following exceptions:

- Two missing invoices
- Two invoices that were not properly authorized in accordance with KHP established procedures
- Three expenditures not recorded under the proper object code
- Twenty-six invoices not paid timely
- Of the 16 ProCard transactions tested:
  - Six purchases were made by someone other than the cardholder
  - One purchase was supported by a quote rather than a valid receipt

KHP's internal control structure over financial accounting and reporting was lacking. No written policies or procedures existed outlining the proper procedures over processing expenditures.

By not having an effective internal control structure, the potential increases for monetary loss, misstated financial statements, and noncompliance with state laws and regulations.

Internal control procedures should be designed so that adequate controls exist to help ensure completeness, accuracy, and approval of the information included in the financial statements. Effective internal controls dictate that all expenditures be supported by adequate documentation, properly reviewed, and recorded.

These controls should also be designed to ensure adherence to state laws and regulations as described below.

KRS 45.453 states: "[a]ll bills shall be paid within thirty (30) working days of receipt of goods and services or a vendor's invoice except when the purchasing agency has transmitted a rejection notice to the vendor."

KRS 45.454 states: "[a]n interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of the goods or services or vendor's invoice by a purchasing agency."

FAP 111-58-000 outlines the correct procedures for the use of agency ProCards. Per this FAP, a valid receipt should support the procurement card purchase, and the cardholder shall not share the card with, or loan the card to, any other individual.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-036: The Kentucky Horse Park Did Not Have Adequate Procedures Over The Processing Of Expenditures (Continued)**

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**Recommendation**

KHP should consider developing a written policy and procedure manual that documents established procedures for processing expenditures. We recommend KHP develop and implement internal controls to ensure all invoices are maintained, properly recorded, properly reviewed, paid timely as required by KRS 45.453, and that all ProCard transactions are processed in accordance with FAP 111-58-000.

**Management's Response and Planned Corrective Action**

*The Kentucky Horse Park has reviewed the exceptions. In light of this recommendation, KHP has forwarded the written policies and procedures in regards to properly handling invoices.*

*KHP has two custodial ProCards that are available for KHP Staff to sign out make needed as purchases ProCard policies and procedures.*

*In addition, new staff members have been hired, which will help make invoice payments process more timely as required by KRS 45.453.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-037: The Kentucky Horse Park Did Not Have Proper Documentation For Daily Receipts**

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During testing of daily receipts at the Kentucky Horse Park (KHP), amounts received were not adequately documented. During an event, KHP rented point of sale (POS) machines that did not differentiate cash and credit card amounts received. Also, during another event, tickets were not maintained by KHP to document sales to agree to amounts recorded as received. Additionally, after the daily cash deposits are counted, there are no records of overages or shortages kept.

The POS machines that did not differentiate credit cards from cash were rented for use due to the increased business during an event. When the machine was rented, it was not properly programmed to differentiate sales. The tickets that documented sales were given to an event organizer, but they should have been maintained by KHP. For the cash differences, KHP has never kept records that document cash differences.

This has resulted in daily deposits that are not adequately supported. Not maintaining documentation of cash differences has left management without a clear understanding of daily cash receipt processing.

Good internal controls dictate that all amounts received should be supported by source documentation. This includes point of sale machine close out tapes or pre-numbered tickets and receipts to agree to the amounts deposited. Also, a record of overages and shortages that occur as a result of daily operations should be maintained for management to be aware of issues that occur or could arise in the accounting for daily receipts.

#### **Recommendation**

It is recommended that KHP improve procedures over receipts to ensure that they are adequately documented. It is further recommended that, as part of the daily deposit reconciliation process, records of overages and shortages be maintained to assist KHP management in overseeing daily cash handling activities.

#### **Management's Response and Planned Corrective Action**

*The Kentucky Horse Park is in the process of updating the POS system as part of a master agreement with the Commonwealth. This POS agreement will provide consistency across all departments.*

*It is our understanding that KHP used to track overages and shortages, however this policy was suspended by the administration. KHP will implement updated policies and procedures regarding cash differences.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-038: The Kentucky State Police Did Not Adequately Account For Assets Received As Part Of The Law Enforcement Support Office Program**

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This is a repeat finding. The original finding, 2015-031, can be found in Volume I of the fiscal year 2015 SSWAK. The Kentucky State Police (KSP) participates in and is a pass-through entity for the U.S. Department of Defense's 1033 Law Enforcement Support Office (LESO) program. This program transfers excess equipment to states and local law enforcement agencies for administrative and law enforcement purposes.

Certain classes of equipment received by KSP through this program must remain the property of the federal government and are therefore on loan. KSP used incorrect acquisition codes in the state's financial accounting system, eMARS, which improperly recognized the equipment as owned rather than loaned. Examples of these assets primarily include high cost items such as humvees, planes, and helicopters.

Progress has been made on correcting this issue during fiscal year 2016, but it has not been resolved.

KSP employees were not aware of the difference in acquisition coding in eMARS and the financial statement impact of incorrectly recording loaned items in the state's financial system. For assets valued above the state's capitalization threshold, incorrectly recording items not owned by the state in its financial records had the effect of overstating assets on the financial statements as well as overstating depreciation expense. The original acquisition cost recorded for these assets which have not yet been corrected was \$2,933,355. For assets valued below the capitalization threshold, this incorrect classification overstated expenses for the years in which they were acquired.

The Memorandum of Agreement (MOA) between the Commonwealth and the U.S. Defense Logistics Agency includes the following language:

- Property will not be obtained for the purpose of sale, lease, rent, exchange, barter, to secure a loan, or to otherwise supplement normal Law Enforcement Agency (LEA) or State/Local governmental entities budgets.
- The Department of Defense has authorized the transfer and use of excess Federal property to the State/LEA and as such reserves the right to recall any and all property issued through the 1033 or 1208 programs.

#### **Recommendation**

KSP should use correct acquisition methods available in eMARS to recognize items not owned by the Commonwealth. Also, KSP should revise policies and procedures so that assets are appropriately and consistently valued.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-038: The Kentucky State Police Did Not Adequately Account For Assets Received As Part Of The Law Enforcement Support Office Program (Continued)**

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**Management's Response and Planned Corrective Action**

*When Kentucky State Police (KSP) first started participating in the U.S. Department of Defense's (DOD) 1033 Law Enforcement Support Office (LESO) program, the only way to track the equipment items obtained was to enter them into Kentucky's statewide accounting system (eMARS). Since that time, the DOD 1033 LESO program integrated an inventory system of their own called Federal Excess Property Management Information System (FEPMIS). This property management system tracks all property received by LESO program participants. Additionally, at the end of each federal fiscal year, LESO program participants are required to utilize FEPMIS to conduct an annual inventory and certification of property in their possession. Timely and accurate reconciliation of property is a requirement for continued participation in the LESO program.*

*In addition to the creation of FEPMIS, KSP began use of two agency managed systems that effectively track all property acquired through the LESO program. The Electronic Automotive (E-Auto) tracks any vehicles obtained through the LESO program while the Inventory Management System (IMS) tracks all other items.*

*The items in question which created the condition of weakness/noncompliance are accurately depicted in this report as "loaned" items and are not assets owned by the Commonwealth. It is also accurate that the DOD reserves the right to recall any and all property issued through the 1033 or 1208 programs. Additionally, these items must be returned through the LESO program when no longer utilized by the agency. Based on this information, KSP proposes, as a plan of corrective action, to remove from eMARS all property acquired through the LESO program. Items to be removed are already being tracked and have been reconciled in the inventory systems mentioned above. Removal of these items from eMARS will effectively eliminate the issues of overstating assets and incorrect classification. For any additional equipment obtained by LESO program that may be inaccurately categorized assets, KSP requests a period of 45 days to make the corrections upon being notified by the APA office with [Name Redacted], Administrative Branch Manager, and [Name Redacted], KSP Supply Branch Commander, listed respectively as the agency point of contact and contact person responsible for corrective action.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-039: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls Over The Preparation And Review Of Financial Information Resulting In Significant Prior Period Misstatements**

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During fiscal year 2016, the Kentucky Transportation Cabinet (KYTC) identified the following errors related to financial information reported in the prior fiscal year:

- KYTC reported easements in the amount of \$49,307,437 as part of their capital assets in fiscal year 2015. Following a review of the preservation easement files during fiscal year 2016, KYTC identified that several projects never had preservation easements recorded and KYTC had incorrectly reported easements held by the Kentucky Heritage Council (KHC). KYTC had incorrectly recorded easements belonging to KHC in the amount of \$5,719,449 and properties that KYTC did not have an easement on in the amount of \$38,464,397. This resulted in easements reported by KYTC being overstated in fiscal year 2015 by \$44,183,846.
- KYTC identified it had incorrectly reported approximately \$63 million of maintenance and preservation costs belonging to the Kentucky Public Transportation Infrastructure Authority (KPTIA) within its fiscal year 2015 financial information reported within the Commonwealth's financial statements.

KYTC failed to implement adequate policies, procedures, and internal controls to prevent and detect misstatements of reported financial information related to the accounting for easements and maintenance and preservation costs. Related to maintenance and preservation costs, KPTIA is a component unit of the Commonwealth administratively tied to KYTC. The interconnected relationship between KPTIA and KYTC contributed to the confusion of ownership of activity, resulting in the same maintenance and preservation costs being reported by both entities.

The Commonwealth's fiscal year 2015 financial statements were misstated as a result of the errors not being detected timely. This includes an overstatement of KYTC's reported capital assets in the amount of \$44,183,846 and an overstatement of maintenance and preservation costs in the amount of approximately \$63 million. Documentation identified KYTC's easements had been overstated since at least fiscal year 2011. There is the potential for other errors to occur and go undetected which could have a material impact on the financial statements.

Sound internal controls dictate adequate policies and procedures be implemented in order to ensure the integrity of the financial statement reporting process. Management is responsible for the preparation of financial information impacting the financial statements. This includes the design, implementation, and maintenance of internal controls to ensure prepared financial information is complete and accurate.

#### **Recommendation**

We recommend KYTC strengthen internal controls over its financial reporting process. KYTC should assess its control environment, including how significant variances could go undetected, and implement safeguards to prevent and detect potential misstatements. Established policies and procedures should be formally documented and communicated to staff.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-039: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls Over The Preparation And Review Of Financial Information Resulting In Significant Prior Period Misstatements (Continued)**

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**Management's Response and Planned Corrective Action**

*KYTC did identify errors reported in the prior fiscal year financial information and took immediate action to correct the errors in the current year to ensure accurate financial reporting.*

*KYTC Office of Local Programs noted the error with the reporting of easements during their internal review. With the assistance of the FHWA, a better understanding on who should report the easement was obtained. The Office of Local Programs will strengthen their internal controls over easements by providing a management level review prior to submission.*

*KYTC Division of Accounts will strengthen our internal controls over KPTIA reporting to include a management level review of data prior to submission to the Finance Cabinet for inclusion in the CAFR.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-040: The Kentucky Transportation Cabinet Failed To Ensure Capital Asset Additions Were Reported At Historical Cost**

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During fiscal year 2016 the Kentucky Transportation Cabinet (KYTC) failed to ensure capital asset additions were recorded at historical cost within the Operations Management System (OMS). For nine out of 25 capital asset additions tested, the total acquisition cost recorded did not agree with provided supporting documentation. The following exceptions were identified:

- In three instances, the recorded fixed asset value was less than the acquisition cost identified within supporting documentation. The recorded fixed asset value was understated by \$8,254 for these items.
- In six instances, the recorded fixed asset value was more than the acquisition cost identified within supporting documentation. The recorded fixed asset value was overstated by \$8,731 for these items.

A projection of the net effect of these errors to the \$25,747,313 population resulted in a potential overstatement of reported fixed asset additions by \$11,034. The overall projected impact was limited due to errors consisting of both overstatements and understatements in reported values. In the sample selected for testing, the more significant variances included one asset being understated by over 26% and another asset being overstated by over 9%.

KYTC failed to implement adequate internal controls to ensure compliance with Finance and Administration Cabinet (FAC) policies and procedures pertaining to the acquisition and recording of fixed assets. KYTC failed to ensure auxiliary charges and discounts were incorporated into the reported fixed asset value. Additionally, a review process was not in place and operating effectively in order to detect and prevent misstatements from occurring.

Failure to implement adequate internal controls over the recording of fixed assets increases the risk of a misstatement on the Commonwealth's financial statements. Significant variances in fixed asset reporting could have occurred had the errors not balanced out due to both overstatements and understatements in reporting. Additionally, incorrect asset valuation could lead to errors in the calculation and reporting of depreciation.

FAP 120-20-01, Personal Property and Vehicle Inventories, states:

#### 2. General Provision Pertaining Fixed Asset Records:

- a. State agency shall maintain current records of physical properties and equipment and make appropriate additions and deletions to fixed asset records as property is acquired or disposed.
- c. Each budget unit shall review its fixed asset records as of June 30 each year to ensure completeness and accuracy.
- d. If the review process reveals incorrect or inadequate information, the agency shall take the necessary steps to correct the discrepancies.



**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-040: The Kentucky Transportation Cabinet Failed To Ensure Capital Asset Additions Were Reported At Historical Cost (Continued)**

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## 3. Personal Property to be recorded:

- a. All non-expendable property valued at \$500 or more shall be recorded as a line item. This record shall include agency number, state property identification tag number, make, description, model number, serial number, quantity, location by building and cost.
- b. Cost, including freight, installation, auxiliary charges, less discount taken shall be used if purchase price is known. Appraised value, indexed back to acquisition date, shall be used if the purchase price is unknown.

**Recommendation**

We recommend KYTC strengthen internal controls over the reporting of fixed assets to ensure values are recorded accurately in accordance with FAC policies and procedures. KYTC should ensure fixed asset information is reviewed for completeness and accuracy. Additionally, we recommend KYTC review additions on its depreciation schedule to ensure calculations are based on correct information.

**Management's Response and Planned Corrective Action**

*We agree with the finding and recommendation. Our office looks at every opportunity to save taxpayer funds. A vendor offered a prompt pay discount, which we paid promptly and received the discount. Unfortunately, we did not update OMS appropriately after the discount was received. Internal processes have been implemented effective immediately. If we receive a credit from a vendor for prompt payment, we flag the payment. At that time, a "Purchase Price Adjustment" will be done in OMS to reflect the amount on the PRC document. In addition, The Division of Equipment's Procurement Branch Equipment Receiving Status Spreadsheet will include payments (PRC) which will provide an additional means to ensure the purchase price is accurate.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-041: The Kentucky Transportation Cabinet Failed To Timely Ensure The Accuracy Of Financial Information Used For Financial Statement Reporting**

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During fiscal year 2016, the Kentucky Transportation Cabinet (KYTC) was delayed in completing its year-end Government Accounting Standards Board (GASB) 34 workbook which is significant for providing information necessary for the compilation of the Commonwealth's Comprehensive Annual Financial Report (CAFR). The GASB 34 workbook is pivotal in providing infrastructure, construction in progress, and maintenance and preservation cost information necessary for financial statement reporting. Based on correspondence with KYTC, there were uncertainties over the completeness and accuracy of the provided information used to compile the workbook. Correspondence raised questions related to the accuracy of utilized reports and the methodology used for calculating balances. Additionally, conflicting information was provided creating confusion on which amounts were accurate, and a section corresponding to KYTC's buildings was initially omitted from the infrastructure calculations. Several revisions were necessary before the GASB 34 workbook was finalized.

KYTC experienced significant turnover of key personnel prior to the completion of the fiscal year 2016 GASB 34 workbook. Instructions, policies, and procedures were not in place to assist new personnel in preparing the GASB 34 workbook. The GASB 34 workbook provides a breakdown for reporting over \$20 billion in infrastructure, approximately \$2 billion in construction in progress, and over \$987 million in maintenance and preservation costs necessary for financial reporting. The failure to ensure the GASB 34 workbook is complete and accurate could result in a material misstatement on the Commonwealth's financial statements which could go undetected. Additionally, the delay in preparing the required information limits the availability for review by KYTC management and external auditors to further validate reported account balances.

Sound internal controls dictate adequate policies and procedures be implemented to ensure the integrity of the financial reporting process. Management is responsible for the preparation of financial information impacting the financial statements. This includes the design, implementation, and maintenance of internal controls to ensure prepared financial information is free from material misstatements.

#### **Recommendation**

We recommend KYTC implement policies and procedures to ensure year-end financial information on the GASB 34 workbook is complete, accurate, and submitted timely. This should include the completion of a management level review of the GASB 34 workbook to further validate its accuracy and completeness. KYTC should continuously assess the potential impact of the turnover of key personnel and ensure adequate safeguards are in place to limit potential errors.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-041: The Kentucky Transportation Cabinet Failed To Timely Ensure The Accuracy Of Financial Information Used For Financial Statement Reporting (Continued)**

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**Management's Response and Planned Corrective Action**

*As noted by APA, KYTC experienced significant loss of key personnel who had been responsible for GASB 34 reporting of infrastructure assets. This person's duties were passed onto two other individuals who had very little written procedures to follow, in addition to performing their current work duties and reporting responsibilities. To that end, KYTC Division of Accounts will start preparing formal written procedures for GASB34 reporting, which will include a management level review of the data prior to submission to the Finance Cabinet for inclusion in the CAFR. We are also working on obtaining additional staff in this reporting area that will help alleviate the work load.*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-042: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls Over The Payroll Process**

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Kentucky Transportation Cabinet (KYTC) personnel account for their time and attendance on a daily timesheet which is signed by the employee and approved by a supervisor. Timesheet information is then entered into the Kentucky Human Resources Information Systems (KHRIS) where it is uploaded into the State's accounting system (eMARS) for financial reporting purposes. The timesheets are maintained at either the KYTC central office or district offices throughout the state. During fiscal year 2016, daily timesheets for 60 employees covering four separate pay periods were reviewed. The following exceptions were identified:

- Thirteen daily timesheets were not signed by an employee;
- Nine daily timesheets were not signed by a supervisor;
- In one instance, a voting leave request was not submitted or approved; and
- In five instances, the hours recorded in KHRIS did not match the hours recorded and approved on the timesheet. The aggregate of these errors resulted in the time reported in KHRIS being overstated by six hours.

This is a repeat of finding 2015-041 which can be found in Volume I of the fiscal year 2015 SSWAK.

KYTC failed to implement adequate internal controls as identified in its policies and procedures manual in order to prevent and detect errors related to payroll processing. Without employee or supervisor signatures on timesheets, there is no evidence the employee agreed with the time record processed in KHRIS or that the supervisor validated the time charged. Additionally, failure to ensure hours reflected on timesheets are correctly recorded in KHRIS could lead to employees being over or under compensated. This could lead to inaccuracies in financial reporting.

The General Administration and Personnel (GAP) Manual Section 206-1 states:

- At the end of the pay period, employees shall sign the KHRIS timesheet, certifying the accuracy of the reported time, and submit the timesheet to their supervisor for signature approval.
- Supervisors shall sign the TC 12-261 form certifying that all information reported by their employees is accurate, including all evidence of approved requests for deviation from regular work schedule, for planned leave, and for compensatory time/overtime.

Additionally, sound internal controls dictate that the correct hours should be charged for work performed, overtime should be properly approved, and timesheets should be signed by the employee to ensure the correct hours are reported in KHRIS. Appropriate review should be conducted and documented to ensure timesheet information is appropriate and properly coded into KHRIS to ensure accuracy in financial reporting.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-042: The Kentucky Transportation Cabinet Failed To Implement Adequate Internal Controls Over The Payroll Process (Continued)**

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**Recommendation**

We recommend KYTC implement adequate internal controls to ensure timesheet data is accurately reported in KHRIS. KYTC should also provide further training to all staff to ensure compliance with GAP Manual Section 206-1 requiring timesheets are properly signed and approved by the employee and supervisor.

**Management's Response and Planned Corrective Action**

*The Office of Human Resource Management (OHRM) will send out reminders of the following to KYTC Timekeepers and Management:*

- *Supervisors and timekeepers should ensure that all timesheets are signed by the employee and the supervisors.*
- *Timekeepers should ensure that the time code on the timesheet agrees to the time code entered into KHRIS.*
- *Timekeepers are strongly encouraged to review KYTC Timekeeper Training which can be found on OHRM's website.*

*NOTE: Reminders for bullet points 1 and 2 were sent out in December of 2015 as soon as the 2015-041 finding was brought to our attention. We are diligently making efforts to be in full compliance.*

*It should be noted that GAP-406 states: "Each area of the Cabinet shall have in place a written Leave Request and Reporting Procedure. An office or department may choose to create one procedure for all of the organizational units under its purview, or each organizational unit of an office or department may develop its own procedure. This decision lies with the office or department head. Each Leave Request and Reporting Procedure shall address requesting and reporting both unplanned and planned leave. " Therefore, the supervisor that signed the timesheets does attest to the fact they did approve the voting leave in advance per their office or department procedures. In additions, the timesheet states beside both the employee and supervisor signature line that, "I certify that all information reported above is correct and that attendance, absences, overtime, leave and use of state vehicles is in accordance with existing laws and regulation and Cabinet policies".*

## **FINANCIAL STATEMENT FINDINGS**

### ***Significant Deficiencies Relating to Internal Controls and/or Noncompliances***

#### **FINDING 2016-043: The Kentucky Transportation Cabinet Failed To Ensure The Right-Of-Way Was Obtained Prior To The Awarding Of A Road Construction Project**

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The Kentucky Transportation Cabinet (KYTC) failed to develop and implement formal written policies and procedures to ensure all necessary requirements per KRS 176.070 were met before proceeding with the letting and awarding of construction projects pertaining to the Commonwealth's transportation infrastructure. In one instance, KYTC awarded a construction project on East Brannon Road in Jessamine County on November 30, 2015 without the necessary right-of-way acquired or a guaranteed date for work to begin. Documentation revealed KYTC was aware of the potential for future issues concerning the right-of-way. A Right-Of-Way Certification dated November 2, 2015 identified the additional right-of-way was required before project work could begin, and it was anticipated that the right-of-way would not be cleared until March 15, 2016. There was no definite date for acquiring all the parcels of land necessary for work on the project to begin.

Although aware of potential issues with the acquisition of the necessary right-of-way, KYTC elected to proceed with the project in anticipation that all issues would be resolved before the contracted start date. KYTC failed to implement adequate internal controls to prevent non-compliance with KRS 176.070 or react and mitigate potential contractual losses due to the failure to obtain the necessary right-of-way. While it is not possible for KYTC to predict and prepare for every scenario that could result in the payment of administrative settlements to contracted entities, acquisition of right-of-way is a foreseeable and necessary obstacle that should be addressed before advertisement for bids in accordance with KRS 176.070.

The failure to implement adequate internal controls over KYTC's construction project letting and awarding process increases the risk that transportation contracts will be awarded without proper planning and right-of-way acquisition. If a project is not planned and secured in accordance with KRS 176.070, KYTC can be exposed to increased change order costs, time delay costs, administrative settlements, project cancellations, and litigation.

In connection with the East Brannon Road project, KYTC agreed to a contract modification on May 23, 2016 which required KYTC to pay a awarded contractor \$625,000 in liquidated delay damages due to failure by KYTC to properly secure right-of-way for the project. This was paid by KYTC in fiscal year 2017. Additionally, the terms of the contract modification required that if notice to proceed is not issued on or before May 1, 2017, KYTC would be responsible for an additional \$850,000 for a total potential loss to the Commonwealth totaling \$1,475,000. The determination by KYTC to agree to a contract modification for the payment of liquidated damages was intended to avoid formal legal action, which could be more burdensome and costly to the Commonwealth.

KRS 176.070(1) states:

After surveys, plans, specifications and estimates have been completed for any road or section thereof, and the type and character of the road has been determined, and the right-of-way obtained, the bureau shall advertise by publication pursuant to KRS Chapter 424, for bids on the work, and may contract for the purchase of all materials necessary for the construction and maintenance of roads.

**FINANCIAL STATEMENT FINDINGS*****Significant Deficiencies Relating to Internal Controls and/or Noncompliances*****FINDING 2016-043: The Kentucky Transportation Cabinet Failed To Ensure The Right-Of-Way Was Obtained Prior To The Awarding Of A Road Construction Project (Continued)**

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**Recommendation**

We recommend KYTC establish formally documented policies and procedures and strengthen internal controls over the construction project authorization process to ensure the right-of-way is obtained before advertising and awarding construction projects to contractors. KYTC's policies should ensure compliance with KRS 176.070 and should fully eliminate the possibility of wasting state funds due to known and preventable circumstances.

**Management's Response and Planned Corrective Action**

*KYTC will amend Section 300 of the Construction Procurement Guidance Manual. Language will be added to include, "Prior to advertising for bids, the Division of Construction Procurement will ensure that all necessary Right of Way for the project have been obtained."*

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## **APPENDIX**



**COMMONWEALTH OF KENTUCKY  
APPENDIX  
FOR THE YEAR ENDED JUNE 30, 2016**

This report is available on our website, [www.auditor.ky.gov](http://www.auditor.ky.gov) in PDF format. For other requests, please contact Tim Gutman, the APA's Open Records Administrator, at (502)564-5841 or [tim.gutman@ky.gov](mailto:tim.gutman@ky.gov). If copies of the CAFR for FY 2016 are required, please contact William M. Landrum III, Finance and Administration Cabinet Secretary, at (502)564-4240 or [william.landrum@ky.gov](mailto:william.landrum@ky.gov).

The list includes agencies receiving financial statement audits by the Auditor of Public Accounts or Certified Public Accounting firms used for preparing the Commonwealth's CAFR. Audit reports are available upon request to the respective agency.

Bluegrass State Skills Corporation  
Old Capitol Annex  
300 West Broadway  
Frankfort, Kentucky 40601

Turnpike Authority of Kentucky  
Room 76, Capitol Annex Building  
Frankfort, Kentucky 40601

Kentucky Transportation Cabinet  
Kentucky Transportation Cabinet Worker's Compensation  
200 Mero Street  
Frankfort, Kentucky 40622

Kentucky Center for the Arts  
5 Riverfront Plaza  
Louisville, Kentucky 40202-2989

Kentucky Economic Development Finance Authority  
Old Capitol Annex  
300 West Broadway  
Frankfort, Kentucky 40601

Kentucky Housing Corporation  
1231 Louisville Road  
Frankfort, Kentucky 40601

Kentucky Retirement Systems  
Perimeter Park West  
1260 Louisville Road  
Frankfort, Kentucky 40601

Kentucky Teachers' Retirement System  
479 Versailles Road  
Frankfort, Kentucky 40601

**COMMONWEALTH OF KENTUCKY  
APPENDIX  
FOR THE YEAR ENDED JUNE 30, 2016  
(Continued)**

University of Louisville  
2301 South 3rd Street  
108 Grawemeyer Hall  
Louisville, Kentucky 40292

Western Kentucky University  
Vice President for Finance and Administration  
1 Big Red Way  
Bowling Green, Kentucky 42101-3576

Murray State University  
322 Sparks Hall  
Murray, Kentucky 42071

Kentucky State University  
Office of Administrative Affairs  
400 East Main Street  
Frankfort, Kentucky 40601

Kentucky Lottery Corporation  
1011 West Main Street  
Louisville, Kentucky 40202-2623

Kentucky State Fair Board  
Kentucky Fair and Exposition Center  
P.O. Box 37130  
Louisville, Kentucky 40233-7130

Kentucky Educational Television Authority  
600 Cooper Drive  
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority  
P.O. Box 798  
Frankfort, Kentucky 40602-0798

Kentucky Higher Education Student Loan Corporation  
P.O. Box 24266  
Louisville, KY 40224-0266

**COMMONWEALTH OF KENTUCKY  
APPENDIX  
FOR THE YEAR ENDED JUNE 30, 2016  
(Continued)**

Kentucky Infrastructure Authority  
1024 Capital Center Dr., Suite 340  
Frankfort, Kentucky 40601

Kentucky Judicial Form Retirement System  
P.O. Box 791  
Frankfort, Kentucky 40602

University of Kentucky  
107 Main Building  
Lexington, Kentucky 40506-0005

Eastern Kentucky University  
Vice President for Business Affairs  
521 Lancaster Avenue  
Richmond, Kentucky 40475-3101

Morehead State University  
Office of Accounting and Budgetary Control  
207 Howell-McDowell Administration Building  
Morehead, Kentucky 40351-1689

Northern Kentucky University  
Office of Business Affairs  
Lucas Administration Center  
726 Nunn Drive  
Highland Heights, Kentucky 41099-8101

Office of Public Employees Health Insurance  
State Office Building, 2nd Floor  
501 High Street  
Frankfort, KY 40601

Kentucky Community and Technical College System  
300 North Main Street  
Versailles, KY 40383

**COMMONWEALTH OF KENTUCKY  
APPENDIX  
FOR THE YEAR ENDED JUNE 30, 2016  
(Continued)**

Kentucky River Authority  
70 Wilkinson Boulevard  
Frankfort, KY 40601

Council on Postsecondary Education  
1024 Capital Center Drive, Suite 320  
Frankfort, Kentucky 40601

Office of the Petroleum Storage Tank  
Environmental Assurance Fund  
81 C. Michael Davenport Boulevard  
Frankfort, KY 40601

Kentucky Artisan Center at Berea  
P.O. Box 280  
Berea, KY 40403

Kentucky Public Employees' Deferred Compensation Authority  
101 Sea Hero Road, Suite 110  
Frankfort, KY 40601-5404

Workers' Compensation Program  
State Office Building, 3<sup>rd</sup> Floor  
501 High Street  
Frankfort, KY 40601

Kentucky Department of Labor - Special Fund  
1047 US Highway 127 S, Suite 4  
Frankfort, KY 40601

Kentucky Horse Park Foundation  
4089 Iron Works Parkway  
Lexington, Kentucky 40511

Kentucky Public Transportation Infrastructure Authority  
200 Mero Street, 6th Floor East  
Frankfort, Kentucky 40622

Kentucky Communications Network Authority  
209 Saint Clair St. 4<sup>th</sup> Floor  
Frankfort, KY 40601